

Sleep Country Continues to Execute Well in the First Quarter, Completed Acquisitions of Silk & Snow and Casper Canada and Increases Dividend by 10.2%

TORONTO, May 8, 2023 /CNW/ - Sleep Country Canada Holdings Inc. ("**Sleep Country**" or the "**Company**") (TSX: ZZZ) today released its financial results for the first quarter ended March 31, 2023.

All financial results are reported in Canadian dollars unless otherwise stated.

First Quarter Financial Highlights

- Revenues decreased by \$0.5 million or 0.3% to \$206.5 million in Q1 2023 from \$207.0 million in Q1 2022;
- Same Store Sales ("**SSS**")¹ decreased by 6.2% in Q1 2023 from Q1 2022;
- Revenues attributed to eCommerce channels increased to 22.3% in Q1 2023 from 20.8% in Q1 2022;
- Gross profit margin decreased to 34.3% in Q1 2023 from 34.6% in Q1 2022;
- EBITDA¹ decreased by \$4.5 million or 10.3% to \$39.7 million in Q1 2023 from \$44.2 million in Q1 2022;
- Operating EBITDA¹ margin decreased to 20.0% in Q1 2023 from 22.6% in Q1 2022;
- Net income attributable to the Company decreased by \$7.1 million or 38.5% to \$11.3 million in Q1 2023 from \$18.4 million in Q1 2022;
- Adjusted net income attributable to the Company¹ decreased by \$7.6 million or 36.3% to \$13.2 million in Q1 2023 from \$20.8 million in Q1 2022;
- Diluted earnings per share ("**EPS**") decreased by \$0.17 or 34.7% to \$0.32 in Q1 2023 from \$0.49 in Q1 2022;
- Diluted adjusted EPS¹ decreased by \$0.19 or 33.9% to \$0.37 in Q1 2023 from \$0.56 in Q1 2022;
- In Q1 2023, the Company repurchased for cancellation 299,519 common shares for total consideration of \$7.3 million against its NCIB; and
 - Subsequent to quarter-end, on May 8, 2023, the Board declared a 10.2 % increase in the quarterly dividend to \$0.237 per share payable on May 31, 2023 to shareholders of record at the close of business on May 24, 2023. The dividend was designated as an "eligible dividend" for Canadian tax purposes.

First Quarter Business Highlights

- The Company acquired substantially all of the net operating assets of Silk & Snow Inc., one of Canada's top growing direct-to-consumer eCommerce retailers, for cash consideration of \$25.1 million and up to \$19.5 million in contingent consideration based on specified earnings levels achieved during the three-year period beginning fiscal 2023;
- Subsequent to quarter-end, the Company acquired the Canadian operations of Casper Sleep Inc., paying \$27.5 million (USD \$20.6 million) in cash at close;
 - The Company invested in a \$27.3 million (USD \$20.0 million) five-year convertible note which will have the option of converting into ~5% of Casper Sleep Inc.'s shares, in addition to receiving a three-year warrant with a strike price of \$0.01 that converts into ~1% of Casper Sleep Inc.'s shares;
 - The Company will receive a cumulative \$6.1 million (USD \$4.5 million) marketing transition fee from Casper Sleep Inc. over the next four years;
- Opened two new Sleep Country/Dormez-vous stores and closed one in Q1 2023 bringing the national store count to 290;
- Celebrated Sleep Awareness Month and World Sleep Day with the 248-hour sleep challenge and generated 12+ million social media impressions on our five-week digital campaign to raise awareness for the importance of sleep for health and wellbeing; and
- Endy won Best Workplaces for Women by Great Places to Work for the second year.

President & CEO Commentary

"For the first quarter of the year, despite ongoing tightening in consumer spending and macro-economic uncertainty, the Company's results remain solid," said Stewart Schaefer, President and CEO of Sleep Country.

"If we compare it to Q1 2022, which was our best Q1 in the Company's history, we were pleased to maintain steady revenues, while continuing to drive our business forward, deliver on our strategic plan and maintain our position as Canada's leading omnichannel sleep retailer," added Schaefer.

"As a spotlight on the quarter, we continued to see strong contributions from brick and mortar, while experiencing softer online sales, as consumers lean more towards in-person shopping," said Schaefer.

"With our strategic plan in place and the strength of our balance sheet, we continued to execute well with a focus on building the country's best sleep ecosystem of innovative products and channels, as well as exceeding our customers' expectations. We kicked off Q1 2023 with the closing of the acquisition of Silk & Snow in the first week of January, followed by the opening of two new Sleep Country/Dormez-vous retail stores. Subsequent to quarter end, we were excited to acquire Casper Sleep's Canadian operations, adding one of North America's leading sleep brands to our growing family," said Schaefer.

"We are also incredibly proud of our winning team, who helped elevate the importance of Canadians' health and well-being, by driving awareness around the importance of sleep through the launch of Sleep Awareness Month and World Sleep Day in March with our digital and influencer campaigns," Schaefer added.

"Looking ahead, while focusing on our multi-year strategic plans, investing in our family of brands, innovative products, and delivering a best-in-class experience for our customers, we remain cautiously optimistic for the back half of 2023," concluded Schaefer.

Summary of First Quarter Financial Results

<i>(C\$ thousands unless otherwise stated; other than store count and EPS)</i>	Q1 2023	Q1 2022	Change
Revenues	\$ 206,495	\$ 207,028	(0.3) %
SSS ¹	(6.2) %	8.8 %	
Gross profit margin (%)	34.3 %	34.6 %	
Stores opened	2	1	
Stores closed	1	-	
Stores renovated/relocated	-	-	
Operating EBITDA ¹	\$ 41,360	\$ 46,714	(11.5) %
Operating EBITDA margin ¹ (%)	20.0 %	22.6 %	
Net income attributable to the Company	\$ 11,330	\$ 18,413	(38.5) %
Adjusted net income attributable to the Company ¹	\$ 13,248	\$ 20,800	(36.3) %
Basic EPS	\$ 0.33	\$ 0.50	(34.0) %
Diluted EPS	\$ 0.32	\$ 0.49	(34.7) %
Basic adjusted EPS ¹	\$ 0.38	\$ 0.56	(32.1) %
Diluted adjusted EPS ¹	\$ 0.37	\$ 0.56	(33.9) %

Note:

¹ See the "Non-IFRS and Other Measures" section of this news release.

Revenues decreased by \$0.5 million or 0.3% from \$207.0 million in Q1 2022 to \$206.5 million in Q1 2023, mainly due to a decrease in SSS¹ by 6.2%, which was partially offset by incremental revenue earned from Silk & Snow acquired on January 1, 2023, net one new store opened in Q1 2023 and wrap stores opened in 2022.

Gross profit margin decreased by 30 basis points from 34.6% for Q1 2022 to 34.3% for Q1 2023, mainly due to deleveraging occupancy expenses and higher product and delivery costs, which were partially offset by an increase in average unit selling prices.

Total G&A expenses increased by \$5.0 million or 11.6% from \$43.1 million in Q1 2022 to \$48.1 million in Q1 2023. This change was mainly driven by an increase in media and advertising, impacted by the incremental spend by Silk & Snow acquired in Q1 2023, as well as increases in credit card and finance charges, compensation and intangible depreciation expenses.

Finance related expenses increased by \$3.5 million from \$3.0 million in Q1 2022 to \$6.5 million in Q1 2023. This change was mainly due to an unrealized loss on the interest rate swap in Q1 2023 and an increase in interest expense on the Company's senior secured credit facility, as a result of higher effective interest rates and an

increase in the Company's debt.

Operating EBITDA was \$41.4 million for Q1 2023, or 20.0% of Revenues, compared to \$46.7 million for Q1 2022, or 22.6% of Revenues, representing a decrease of \$5.3 million or 11.5%. This change was mainly due to lower Revenues in Q1 2023, combined with a lower gross profit margin and an increase in G&A expenses, impacted by incremental media and advertising spend by Silk & Snow acquired in Q1 2023.

Income taxes decreased by \$2.5 million from Q1 2022 to Q1 2023. The change was driven by the decrease in net income before taxes of \$9.7 million from \$25.4 million in Q1 2022 to \$15.7 million in Q1 2023, partially offset by an increase in the Company's effective income tax rate by 70 basis points from 27.2% in Q1 2022 to 27.9% in Q1 2023.

Net income attributable to the Company for Q1 2023 decreased by \$7.1 million from \$18.4 million (\$0.50 per share) in Q1 2022 to \$11.3 million (\$0.33 per share) in Q1 2023.

Adjusted net income attributable to the Company for Q1 2023 decreased by \$7.6 million from \$20.8 million (\$0.56 per share) in Q1 2022 to \$13.2 million (\$0.38 per share) in Q1 2023.

Conference Call

Sleep Country's President and CEO, Stewart Schaefer, and CFO, Craig De Pratto, will host a conference call for analysts and investors on May 9 at 8:00 a.m. ET. The dial-in numbers for the conference call are 416-764-8659 or 888-664-6392. This conference call will be recorded and available for replay until May 16, 2023. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 973341#.

About Sleep Country

Sleep Country is Canada's leading specialty sleep retailer with a purpose to transform lives by awakening Canadians to the power of sleep. Sleep Country operates under the retailer banners; Sleep Country Canada, Dormez-vous, Endy, Silk & Snow, and most recently acquired, Casper Canada. The Company has omnichannel and eCommerce operations, including 290 corporate-owned stores and 20 warehouses across Canada. Recognized as one of Canada's Most Admired Corporate Cultures in 2022 by Waterstone Human Capital, Sleep Country is committed to building a company culture of inclusion and diversity where differences are embraced and valued. The Company actively invests in its sleep ecosystem, innovative products, world-class customer experience, communities and its people. For more information about Sleep Country, please visit www.sleepcountry.ca.

Non-IFRS and Other Measures

This news release refers to certain measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS, including Same Store Sales or SSS, EBITDA, Operating EBITDA, Operating EBITDA margin, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS. For more information on these Non-IFRS and other measures as well as a reconciliation to the most comparable IFRS measure, refer to "Non-IFRS and Other Measures" in the Company's MD&A for Q1 2023, which is available on SEDAR at www.sedar.com.

Forward-Looking Information

Certain information in this news release contains forward-looking information and forward-looking statements, which reflect the current view of management with respect to the Company's objectives, plans, goals, strategies, outlook, results of operations, financial and operating performance, prospects and opportunities. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe" and similar expressions, identify forward-looking information and forward-looking statements. Forward-looking information and forward-looking statements should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the information in this news release, containing forward-looking information or forward-looking statements, is qualified by these cautionary statements.

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current good faith belief with respect to future strategies, prospects, events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described in the Company's MD&A for Q1 2023 under the sections "Risk Factors" and those described in the Company's 2022 annual information form (the "AIF") filed on March 2, 2023, both of which can be accessed under the Company's profile on SEDAR at www.sedar.com.

Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be less significant may also adversely affect the Company.

The Company cautions that the list of risk factors and uncertainties described in the MD&A for Q1 2023 and the AIF are not exhaustive and that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual strategies, prospects, events, performance and results may vary significantly from those expected. There can be no assurance that the actual strategies, prospects, results, performance, events or activities anticipated by the Company will be realized or even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Readers are urged to consider the risks, uncertainties, and assumptions carefully in evaluating the forward-looking information and forward-looking statements and are cautioned not to place undue reliance on such information and statements. The Company does not undertake to update any such forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

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<https://ir.sleepcountry.ca/2023-05-08-Sleep-Country-Continues-to-Execute-Well-in-the-First-Quarter.-Completed-Acquisitions-of-Silk-Snow-and-Casper-Canada-and-Increases-Dividend-by-10-2>