

Sleep Country Reports Second Quarter Results, Achieving the Company's Second Strongest Q2 Revenues in the Company's History

TORONTO, Aug. 10, 2023 /CNW/ - Sleep Country Canada Holdings Inc. ("**Sleep Country**" or the "**Company**") (TSX: ZZZ) today released its financial results for the second quarter ended June 30, 2023.

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

Second Quarter Financial Highlights

- Revenues decreased by \$10.4 million or 4.6% to \$217.2 million in Q2 2023 from \$227.6 million in Q2 2022;
- Same Store Sales ("**SSS**")¹ decreased by 10.9% in Q2 2023 from Q2 2022;
- Revenues attributed to eCommerce increased to 21.3% in Q2 2023 from 18.1% in Q2 2022;
- Gross profit decreased by \$2.7 million to \$79.0 million in Q2 2023 from \$81.7 million in Q2 2022;
- Gross profit margin increased to 36.4% in Q2 2023 from 35.9% in Q2 2022;
- Operating EBITDA¹ decreased by \$9.0 million or 17.0% to \$44.2 million in Q2 2023 from \$53.2 million in Q2 2022;
- Operating EBITDA¹ margin decreased to 20.4% in Q2 2023 from 23.4% in Q2 2022;
- Net income attributable to the Company decreased by \$10.0 million or 44.0% to \$12.7 million in Q2 2023 from \$22.7 million in Q2 2022;
- Adjusted net income attributable to the Company¹ decreased by \$10.9 million or 42.5% to \$14.8 million in Q2 2023 from \$25.7 million in Q2 2022;
- Diluted earnings per share ("**EPS**") decreased by \$0.25 or 41.0% to \$0.36 in Q2 2023 from \$0.61 in Q2 2022;
- Diluted adjusted EPS¹ decreased by \$0.27 or 39.1% to \$0.42 in Q2 2023 from \$0.69 in Q2 2022; and
- Subsequent to quarter-end, on August 10, 2023, the Company's board of directors declared a dividend of \$0.237 per share payable on August 31, 2023, to shareholders of record at the close of business on August 25, 2023. The dividend was designated as an "eligible dividend" for Canadian tax purposes.

Second Quarter Business Highlights

- The Company acquired the Canadian operations of Casper Sleep Inc., including six retail stores and its eCommerce platform, paying \$27.5 million (USD \$20.6 million) in cash at close;
- Expanded the Company's partnership with Walmart Canada, opening an additional two new Sleep Country/Dormez-vous Express stores in Walmart Supercentres bringing the total number of express stores to 19;
- Endy was certified by Great Place to Work Canada for the 5th year in a row; and
- Hush won Retail Council of Canada's Award for the Best Pop-up Experience for its Yorkdale Shopping Centre store.

President & CEO Commentary

"We continued to see softness in the second quarter following a slowdown in consumer spending on large discretionary goods that began in the second half of 2022. While Canadians adapt to an environment of higher interest rates and inflation, we feel consumer spending is still healthy. While our customers have deferred their large ticketed purchases towards travel and leisure, we are cautiously optimistic that this shift is temporary." said Stewart Schaefer, President and CEO of Sleep Country.

"Our digital platforms continue to experience softness as customers come back into our retail stores post-pandemic. The shift we have experienced between our digital platforms and our brick and mortar over the past few years only reaffirms our long-term strategic plans to build a seamless omnichannel experience and allow our customers to shop how they want, when they want and where they want."

"We are focused on transforming our business by investing in the growth of all our brands. This quarter, we put in motion plans to open our very first Endy and Silk & Snow retail locations. With these store openings planned for Q4, we are excited to bring these digital brands into a tactile environment."

"At the same time, we are focused on managing costs and driving efficiencies throughout our organization. We see great opportunities to leverage our infrastructure and scale as a consolidated company across the three acquisitions that we have made in the last 2 years. When our customers are ready to shop, we will be well positioned to service them in a seamless and frictionless way."

"With a strong balance sheet, we continue to explore opportunities to maximize shareholder value and grow our ecosystem as the country's leading sleep retailer. At the start of the quarter, we acquired Casper Canada and we are well underway on putting plans and changes in place to maximize this investment for years to come."

"We are proud to be releasing our second ESG report this month. This report, outlines the progress we've made on our commitment to being a purpose-led, sustainable business focused on helping people enhance their overall health and well-being, building a best-in-class company culture, supporting positive social change and protecting our planet," concluded Schaefer.

Summary of Second Quarter Financial Results

<i>(C\$ thousands unless otherwise stated; other than store and share data)</i>	Q2 2023	Q2 2022	Change
Revenues	\$ 217,199	\$ 227,575	(4.6 %)
SSS ¹	(10.9 %)	15.1 %	
Gross profit margin (%)	36.4 %	35.9 %	
Stores opened ²	6	1	
Stores closed	1	-	
Stores renovated/relocated	-	-	
Operating EBITDA ¹	\$ 44,204	\$ 53,242	(17.0 %)
Operating EBITDA margin (%) ¹	20.4 %	23.4 %	
Net income attributable to the Company	\$ 12,685	\$ 22,665	(44.0 %)
Adjusted net income attributable to the Company ¹	\$ 14,796	\$ 25,739	(42.5 %)
Basic EPS	\$ 0.36	\$ 0.61	(41.0 %)
Diluted EPS	\$ 0.36	\$ 0.61	(41.0 %)
Basic adjusted EPS ¹	\$ 0.43	\$ 0.70	(38.6 %)
Diluted adjusted EPS ¹	\$ 0.42	\$ 0.69	(39.1 %)

Notes:

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

² This figure includes the six Casper stores acquired through the Casper Canada acquisition in April 2023.

Revenues decreased by \$10.4 million or 4.6% from \$227.6 million in Q2 2022 to \$217.2 million in Q2 2023 mainly due to a decrease in SSS¹ by 10.9%, which was partially offset by incremental revenue earned from Silk & Snow (acquired in January 2023), Casper Canada (acquired in April 2023) and wrap stores opened in 2022.

Gross profit margin increased by 50 basis points from 35.9% for Q2 2022 to 36.4% for Q2 2023 mainly due to higher average unit selling prices and lower product costs, partially offset by higher sales and distribution compensation costs, and deleveraging tied to occupancy and depreciation costs which were also impacted by the six Casper stores acquired in April 2023.

Total G&A expenses increased by \$9.0 million or 19.7% from \$45.7 million in Q2 2022 to \$54.7 million in Q2 2023. This change was mainly driven by an increase in advertising and compensation expenses primarily from Silk & Snow (acquired in January 2023) and Casper Canada (acquired in April 2023). In addition, the increase was impacted by higher professional fees mainly related to acquisition activities, software licensing and support

costs, credit card and finance charges, travel, meals and entertainment and intangible depreciation costs.

Operating EBITDA¹ was \$44.2 million for Q2 2023, or 20.4% of Revenues, compared to \$53.2 million for Q2 2022, or 23.4% of Revenues, representing a decrease of \$9.0 million or 17.0% mainly due to lower revenues in Q2 2023 combined with an increase in G&A expenses, impacted by incremental G&A expenses incurred by Silk & Snow (acquired in January 2023) and Casper Canada (acquired in April 2023) which is mainly driven by advertising spend and compensation costs. These changes were partially offset by an improved gross margin.

Finance related expenses increased by \$1.3 million from \$5.3 million in Q2 2022 to \$6.6 million in Q2 2023 mainly due to a decrease in the unrealized gain on the Company's interest rate swap and an increase in interest expense on the Company's lease obligations and its senior secured credit facility, impacted by higher interest rates and debt levels. These changes were partially offset by a decrease in accretion expense as a result of lower redemption liabilities related to the Hush acquisition.

Other expenses (income) increased by \$0.7 million from income of \$0.6 million in Q2 2022 to expenses of \$0.1 million in Q2 2023. This change was mainly due to foreign exchange losses in Q2 2023 partially offset by interest income earned on investments.

Income taxes decreased by \$4.1 million from Q2 2022 to Q2 2023. The change is driven by the decrease in net income before taxes of \$13.8 million from \$31.3 million in Q2 2022 to \$17.5 million in Q2 2023 and a decrease in the Company's effective income tax rate by 120 basis points from 28.4% in Q2 2022 to 27.2% in Q2 2023.

Net income attributable to the Company for Q2 2023 decreased by \$10.0 million from \$22.7 million (\$0.61 per share) in Q2 2022 to \$12.7 million (\$0.36 per share) in Q2 2023.

Adjusted net income attributable to the Company¹ for Q2 2023 decreased by \$10.9 million from \$25.7 million (\$0.70 per share) in Q2 2022 to \$14.8 million (\$0.43 per share) in Q2 2023.

Summary of Year-to-date Financial Results

Revenues decreased by \$10.9 million or 2.5% from \$434.6 million in YTD 2022 to \$423.7 million in YTD 2023 mainly due to a decrease in SSS¹ by 8.7%, which was partially offset by incremental revenue earned from Silk & Snow (acquired in January 2023) and Casper Canada (acquired in April 2023), in addition to wrap stores opened in 2022.

Gross profit margin remained unchanged at 35.3% for YTD 2022 and YTD 2023. Gross profit margin was impacted in YTD 2023 versus YTD 2022 by higher average unit selling prices and lower product costs, which was partially offset by higher sales and distribution compensation costs, and deleveraging tied to occupancy and depreciation costs which were also impacted by the six Casper stores acquired in April 2023.

Total G&A expenses increased by \$14.0 million or 15.7% from \$88.9 million in YTD 2022 to \$102.9 million in YTD 2023. This change was mainly driven by an increase in advertising and compensation expenses primarily from Silk & Snow (acquired in January 2023) and Casper Canada (acquired in April 2023). In addition, the increase was impacted by higher professional fees mainly related to acquisition activities, software licensing and support costs, credit card and finance charges, travel, meals and entertainment and intangible depreciation costs.

Operating EBITDA¹ was \$85.6 million for YTD 2023, or 20.2% of Revenues, compared to \$100.0 million for YTD 2022, or 23.0% of Revenues, representing a decrease of \$14.4 million or 14.4% mainly due to lower revenues in YTD 2023 combined with an increase in G&A expenses, impacted by incremental G&A expenses incurred by Silk & Snow (acquired in January 2023) and Casper Canada (acquired in April Q2 2023), which is mainly driven by advertising spend and compensation costs. These changes were partially offset by an improved gross margin.

Finance related expenses increased by \$4.8 million from \$8.3 million in YTD 2022 to \$13.1 million in YTD 2023 mainly due to a decrease in the unrealized gain on the Company's interest rate swap and an increase in interest expense on the Company's lease obligations and its senior secured credit facility, impacted by higher interest rates and debt levels. These changes were partially offset by a decrease in accretion on the redemption liabilities related to the Hush acquisition.

Other expenses (income) increased by \$1.2 million from income of \$0.6 million in YTD 2022 to expenses of \$0.6 million in YTD 2023. This change was mainly due to foreign exchange losses in YTD 2023 partially offset by interest income earned on investments.

Income taxes decreased by \$6.7 million from YTD 2022 to YTD 2023. The change is driven by the decrease in net income before taxes of \$23.5 million from \$56.7 million in YTD 2022 to \$33.2 million in YTD 2023, as well as a decrease in the Company's effective income tax rate by 40 basis points from 27.9% in YTD 2022 to 27.5% in YTD 2023.

Net Income attributable to the Company for YTD 2023 decreased by \$17.1 million from \$41.1 million (\$1.11 per share) in YTD 2022 to \$24.0 million (\$0.69 per share) in YTD 2023.

Adjusted net Income attributable to the Company¹ for YTD 2023 decreased by \$18.5 million from \$46.5 million (\$1.26 per share) in YTD 2022 to \$28.0 million (\$0.81 per share) in YTD 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 August 11 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 August 18, 2023, 23:59 ET. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 917921#.

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, Hush and most recently acquired, Casper Canada. The Company has omnichannel and eCommerce operations, including 295 corporate-owned stores and 19 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 ir.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 Q2 2023, which is available on SEDAR+ at www.sedarplus.ca.

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 Q2 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.sedarplus.ca. 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 Q2 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.

SOURCE Sleep Country Canada Holdings Inc. Investor Relations

For further information: Craig De Pratto, Chief Financial Officer, investor.relations@sleepcountry.ca

<https://ir.sleepcountry.ca/2023-08-10-Sleep-Country-Reports-Second-Quarter-Results,-Achieving-the-Companys-Second-Strongest-Q2-Revenues-in-the-Companys-History>