Sleep Country Investor Relations

Sleep Country Delivers Strong Topline Revenue While Integrating Strategic Acquisitions

TORONTO, Nov. 9, 2023 /CNW/ - Sleep Country Canada Holdings Inc. ("**Sleep Country**" or the "**Company**") (TSX: ZZZ) released its financial results today for its third quarter ended September 30, 2023.

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

Third Quarter Financial Highlights

- Revenues increased by $4.7 million or 1.9% to $255.7 million in Q3 2023 from $251.0 million in Q3 2022;
- Same Store Sales ("**SSS**")[1] decreased by 5.5% in Q3 2023 from Q3 2022;
- Revenues attributed to eCommerce increased to 20.4% in Q3 2023 from 18.5% in Q3 2022;
- Gross profit increased by $4.8 million to $101.4 million in Q3 2023 from $96.6 million in Q3 2022;
- Gross profit margin increased to 39.7% in Q3 2023 from 38.5% in Q3 2022;
- Operating EBITDA[1] decreased by $5.8 million or 8.8% to $59.8 million in Q3 2023 from $65.6 million in Q3 2022;
- Operating EBITDA[1] margin decreased to 23.4% in Q3 2023 from 26.1% in Q3 2022;
- Net income attributable to the Company decreased by $4.2 million or 14.6% to $24.7 million in Q3 2023 from $28.9 million in Q3 2022;
- Adjusted net income attributable to the Company[1] decreased by $5.7 million or 17.5% to $26.8 million in Q3 2023 from $32.5 million in Q3 2022;
- Diluted earnings per share ("**EPS**") decreased by $0.09 or 11.4% to $0.70 in Q3 2023 from $0.79 in Q3 2022;
- Diluted adjusted EPS[1] decreased by $0.13 or 14.6% to $0.76 in Q3 2023 from $0.89 in Q3 2022;
- Repurchased for cancellation 165,192 common shares (Q3 2022 – 527,576 common shares) in Q3 2023 for $3.8 million (Q3 2022 – $13.8 million) against the Company's NCIB;
- Subsequent to quarter-end, on November 9, 2023, the Board declared a dividend of $0.237 per share payable on November 30, 2023 to shareholders of record at the close of business on November 24, 2023; and
- Subsequent to quarter end, the Company repurchased for cancellation 445,938 shares (YTD - 910,649 common shares) for $9.9 million (YTD - $21.0 million) in the month of October.

Third Quarter Business Highlights

- Opened a new Sleep Country store in Edmonton, Alberta;
- Silk & Snow was recognized for the third consecutive year as one of the top 50 fastest-growing businesses in The Globe and Mail's 2023 Report on Business; and
- Acquired an additional 16% of the common shares of Hush Blankets Inc. increasing the Company's ownership interest to 68%.

President & CEO Commentary

"We are pleased with our strong performance this quarter amid this evolving environment, as high interest rates and inflation continues to have an impact on consumer confidence. We are seeing pockets of softness in consumer demand, particularly on larger ticket items, resulting in a deferral of discretionary purchases. As we navigate through this macro-environment and geo political uncertainty, we remain cautiously optimistic on our medium-term outlook, and we are very positive on our long-term strategic positioning," said Stewart Schaefer, President and CEO of Sleep Country.

"We are focused on building and strengthening our sleep ecosystem while investing in the growth of our brands. In the upcoming month, we are very excited that Endy and Silk & Snow, two of our highly recognized eCommerce brands, will open their very first brick-and-mortar locations. These tactile environments will provide customers with a new opportunity to discover, trial, and purchase innovative and premium sleep products with the help of our trusted Sleep Experts," said Schaefer.

"We are also very pleased with the progress that we are making with our newest acquired banner, Casper Canada. Over the last five months our team has invested a significant amount of time and talent in this latest acquisition and we are excited to see the fruits of our labour in 2024 and beyond," said Schaefer.

"Later this month, we will be launching our new and exciting luxury sleep banner, "the rest," with its first store opening in Yorkdale Mall, Toronto. The rest will offer a uniquely-elevated experience, bringing customers the world's finest collection of luxurious mattresses and premium bedding as we redefine luxury and sleep," added Schaefer.

"As we execute against our strategic growth initiatives, we are also doubling down on our efforts to drive efficiency throughout our house of brands, while working to build the best-in-class synergies and invest in the scalability of our sleep ecosystem," concluded Schaefer.

Summary of Third Quarter Financial Results

(C$ thousands unless otherwise stated; other than store and share data)	Q3 2023	Q3 2022	Change
Revenues	$ 255,748	$ 251,026	1.9 %
SSS[1]	(5.5 %)	(11.1 %)	
Gross profit margin (%)	39.7 %	38.5 %)	
Stores opened[2]	1	1	
Stores closed	-	1	
Operating EBITDA[1]	$ 59,839	$ 65,603	(8.8 %)
Operating EBITDA margin (%)[1]	23.4 %	26.1 %	
Net income attributable to the Company	$ 24,705	$ 28,926	(14.6 %)
Adjusted net income attributable to the Company[1]	$ 26,790	$ 32,457	(17.5 %)
Basic EPS	$ 0.71	$ 0.80	(11.3 %)
Diluted EPS	$ 0.70	$ 0.79	(11.4 %)
Basic adjusted EPS[1]	$ 0.77	$ 0.90	(14.4 %)
Diluted adjusted EPS[1]	$ 0.76	$ 0.89	(14.6 %)

Note:
(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 increased by $4.7 million or 1.9% from $251.0 million in Q3 2022 to $255.7 million in Q3 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022, and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS[1] by 5.5%.

Gross profit margin increased by 120 basis points from 38.5% for Q3 2022 to 39.7% for Q3 2023 mainly due to higher average unit selling prices and lower product costs, partially offset by higher sales and distribution compensation costs, and deleveraging of occupancy costs which were also impacted by the Company's nine new stores of which six locations were added as part of the acquisition of Casper Canada.

Total G&A expenses increased by $10.9 million or 22.0% from $49.8 million in Q3 2022 to $60.7 million in Q3 2023 mainly driven the acquisitions of Silk & Snow and Casper Canada as well as increases in advertising, compensation and information technology costs incurred in the normal course of business.

Operating EBITDA[1] was $59.8 million for Q3 2023, or 23.4% of Revenues, compared to $65.6 million for Q3 2022, or 26.1% of Revenues, representing a decrease of $5.8 million or 8.8% mainly due to an increase in G&A expenses, partly impacted by incremental G&A expenses incurred by Silk & Snow and Casper Canada; partially offset by an improved gross margin in Q3 2023.

Finance related expenses increased by $1.7 million from $6.3 million in Q3 2022 to $8.0 million in Q3 2023 mainly due to an increase in interest expense on the Company's lease obligations and its senior secured credit facility, impacted by the higher interest rates and debt levels in addition to a decrease in the unrealized gain on the Company's interest rate swap. This increase was partially offset by a decrease in accretion expense as a result of lower redemption liabilities related to the Hush acquisition.

Other expenses (income) decreased by $1.2 million from expenses of $0.2 million in Q3 2022 to income of $1.0 million in Q3 2023 mainly due to foreign exchange gains and interest income earned on investments in Q3 2023.

Income taxes decreased by $2.2 million from Q3 2022 to Q3 2023. This change is driven by the decrease in net income before taxes of $6.5 million from $40.3 million in Q3 2022 to $33.8 million in Q3 2023, and a decrease in the Company's effective income tax rate by 110 basis points from 28.1% in Q3 2022 to 27.0% in Q3 2023.

Net income attributable to the Company for Q3 2023 decreased by $4.2 million from $28.9 million ($0.80 per share) in Q3 2022 to $24.7 million ($0.71 per share) in Q3 2023.

Adjusted net income attributable to the Company[1] for Q3 2023 decreased by $5.7 million from $32.5 million ($0.90 per share) in Q3 2022 to $26.8 million ($0.77 per share) in Q3 2023.

Summary of Year-to-date Financial Results

Revenues decreased by $6.2 million or 0.9% from $685.6 million in YTD 2022 to $679.4 million in YTD 2023 mainly due to a decrease in SSS[1] by 7.5%, which was partially offset by incremental revenue earned from new stores, wrap stores in 2022 and the acquisitions of Silk & Snow and Casper Canada.

Gross profit margin increased by 50 basis points from 36.5% in YTD 2022 to 37.0% in YTD 2023 mainly due to higher average unit selling prices and lower product costs, partially offset by higher sales and distribution compensation costs, and deleveraging of occupancy costs which were also impacted by the Company's nine new stores of which six locations were added as part of the acquisition of Casper Canada.

Total G&A expenses increased by $25.0 million or 18.0% from $138.6 million in YTD 2022 to $163.6 million in YTD 2023 mainly driven by the acquisitions of Silk & Snow and Casper Canada as well as increases in advertising, compensation, information technology costs incurred in the normal course business.

Operating EBITDA[1] was $145.4 million for YTD 2023, or 21.4% of Revenues, compared to $165.6 million for YTD 2022, or 24.1% of Revenues, representing a decrease of $20.2 million or 12.2% mainly due to an increase in G&A expenses, partly impacted by incremental G&A expenses incurred by Silk & Snow and Casper Canada; partially offset by an improved gross margin in YTD 2023.

Finance related expenses increased by $6.5 million from $14.6 million in YTD 2022 to $21.1 million in YTD 2023 mainly due to an increase in interest expense on the Company's lease obligations and its senior secured credit facility impacted by the higher interest rates and debt levels, in addition, to a decrease in the unrealized gain on the Company's interest rate swap. These changes were partially offset by a decrease in accretion expense as a result of lower redemption liabilities related to the Hush acquisition.

Income taxes decreased by $8.8 million from YTD 2022 to YTD 2023. The change is driven by the decrease in net income before taxes of $30.0 million from $97.0 million in YTD 2022 to $67.0 million in YTD 2023, and a decrease in the Company's effective income tax rate by 70 basis points from 28.0% in YTD 2022 to 27.3% in YTD 2023.

Net Income attributable to the Company for YTD 2023 decreased by $21.3 million from $70.0 million ($1.91 per share) in YTD 2022 to $48.7 million ($1.40 per share) in YTD 2023.

Adjusted net Income attributable to the Company[1] for YTD 2023 decreased by $24.2 million from $79.0 million ($2.16 per share) in YTD 2022 to $54.8 million ($1.58 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 November 10 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 November 17, 2023, 23:59 ET. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 483452#.

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 retail banners; Sleep Country Canada, Dormez-vous, Endy, Silk & Snow, Hush, and most recently acquired, Casper Canada. The Company has omnichannel and eCommerce operations, including 299 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 refer to "Non-IFRS and Other Measures" in the Company's MD&A for Q3 2023, which is available on SEDAR+ at sedarplus.ca.

Calculation of Non-IFRS and Other Measures

				Q3				YTD
(C$ thousands unless otherwise stated, except EPS)		**2023**		2022		**2023**		2022
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:								
Net income attributable to the Company	**$**	**24,705**	$	28,926	**$**	**48,721**	$	70,004
Add impact of the following:								
Non-controlling interests		**(55)**		55		**(10)**		(88)
Other expenses (income)		**(1,018)**		215		**(424)**		(361)
Finance related expenses		**7,950**		6,319		**21,055**		14,643
Income taxes		**9,138**		11,315		**18,276**		27,129
Depreciation and amortization		**17,173**		16,853		**51,373**		48,458
EBITDA		**57,893**		63,683		**138,991**		159,785
Adjustments:								
Acquisition costs		**-**		-		**1,255**		-
ERP implementation costs		**-**		844		**-**		2,034
Share-based compensation		**1,946**		1,076		**5,159**		3,736
Total adjustments	**$**	**1,946**	$	1,920	**$**	**6,414**	$	5,770
Operating EBITDA	**$**	**59,839**	$	65,603	**$**	**145,405**	$	165,555
Operating EBITDA margin (%)		**23.4 %**		26.1 %		**21.4 %**		24.1 %
Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:								
Net income attributable to the Company	**$**	**24,705**	$	28,926	**$**	**48,721**	$	70,004
Adjustments:								
Acquisition costs		**-**		-		**1,255**		-
ERP implementation costs		**-**		844		**-**		2,034
Share-based compensation		**1,946**		1,076		**5,159**		3,736
Accretion expense		**595**		2,061		**1,190**		4,520
Tax impact of all adjustments		**(456)**		(450)	**$**	**(1,490)**	$	(1,299)
Total adjustments	**$**	**2,085**	$	3,531	**$**	**6,114**	$	8,991
Adjusted net income attributable to the Company	**$**	**26,790**	$	32,457	**$**	**54,835**	$	78,995

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 Q3 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 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 Q3 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

---