

## Sleep Country Reports Q4 Revenue Growth of 5.2% and Annual Revenue Growth of 0.7%

TORONTO, March 6, 2024 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ) released its financial results today for its fourth quarter and year ended December 31, 2023.

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

### Fourth Quarter Financial Highlights

- Revenues increased by \$12.6 million or 5.2% to \$255.6 million in Q4 2023 from \$243.0 million in Q4 2022;
- Same Store Sales ("SSS")<sup>1</sup> decreased by 3.2% in Q4 2023 from Q4 2022;
- Revenues attributed to eCommerce increased to 26.4% in Q4 2023 from 21.1% in Q4 2022;
- Gross profit increased by \$5.2 million or 5.7% to \$96.3 million in Q4 2023 from \$91.1 million in Q4 2022;
- Gross profit margin increased to 37.7% in Q4 2023 from 37.5% in Q4 2022;
- Operating EBITDA<sup>1</sup> decreased by \$1.6 million or 3.1% to \$51.4 million in Q4 2023 from \$53.0 million in Q4 2022;
- Operating EBITDA<sup>1</sup> margin decreased to 20.1% in Q4 2023 from 21.8% in Q4 2022;
- Net income attributable to the Company decreased by \$18.0 million or 44.5% to \$22.5 million in Q4 2023 from \$40.5 million in Q4 2022;
- Adjusted net income attributable to the Company decreased by \$4.6 million or 19.1% to \$19.3 million in Q4 2023 from \$23.9 million in Q4 2022;
- Diluted earnings per share ("EPS") decreased by \$0.48 or 42.5% to \$0.65 in Q4 2023 from \$1.13 in Q4 2022;
- Diluted adjusted EPS<sup>1</sup> decreased by \$0.11 or 16.4% to \$0.56 in Q4 2023 from \$0.67 in Q4 2022;
- The Company purchased for cancellation of 1,132,199 common shares (Q4 2022 - 976,532 common shares) in Q4 2023 for total consideration of \$26.2 million (Q4 2022 - \$22.0 million) against the Company's normal course issuer bid ("NCIB"); and
- Subsequent to quarter-end, on February 5, 2024, the Board declared a dividend of \$0.237 per common share that was paid on February 29, 2024 to holders of the common shares of record as at the close of business on February 21, 2024.

### Annual Financial Highlights

- Revenues increased by \$6.3 million or 0.7% to \$935.0 million in 2023 from \$928.7 million in 2022;
- Revenues attributed to eCommerce increased to 22.7% in 2023 from 19.6% in 2022;
- Gross profit margin increased to 37.2% in 2023 from 36.7% in 2022;
- Operating EBITDA<sup>1</sup> margin decreased to 21.0% in 2023 from 23.5% in 2022;
- Net income attributable to the Company decreased by \$39.3 million or 35.6% to \$71.2 million in 2023 from \$110.5 million in 2022;
- Adjusted net income attributable to the Company decreased by \$28.8 million or 27.9% to \$74.1 million in 2023 from \$102.9 million in 2022;
- Diluted EPS decreased by \$0.97 or 32.2% to \$2.04 in 2023 from \$3.01 in 2022;
- Diluted adjusted EPS<sup>1</sup> decreased by \$0.69 or 24.6% to \$2.12 in 2023 from \$2.81 in 2022; and
- The Company purchased for cancellation of 1,596,910 common shares (2022 - 2,339,409 common shares) in 2023 for total consideration of \$37.3 million (2022 - \$57.7 million) against its NCIB.

### Fourth Quarter Business Highlights

- Opened one new Sleep Country store in Calgary, Alberta and one new Dormez-vous store in Victoriaville, Quebec;
- Opened first-ever brick-and-mortar store for Endy in Sherway Gardens, Toronto, Ontario;
- Opened first store-within-a-store for Sleep Country and Silk & Snow in Ottawa, Ontario;
- Launched first ultra-premium retail concept store, *the rest*, in Yorkdale Shopping Centre, Toronto, Ontario; and
- Subsequent to quarter-end, opened two new Sleep Country stores in Oshawa and Etobicoke, Ontario, and one new Dormez-vous store in Quebec City, Quebec.

### President & CEO Commentary

"I am very proud to report a solid finish to our fiscal year setting a new watermark record in Revenues in our nearly 30-year-old company. Our annual Revenues grew by 0.7% while our Q4 2023 Revenues grew by 5.2% from Q4 2022. Despite ongoing industry challenges that have seen double-digit unit declines in mattress purchases across North America, we delivered strong results. As we execute our multi-year plan of continuing to grow our house of brands and focus on driving efficiencies through our resilient omnichannel business model, we remain razor-focused on innovative ways to grow our market share" said Stewart Schaefer, President and CEO of Sleep Country.

"Our omnichannel approach continues to resonate well with our customers, as successfully demonstrated with the opening of three new brick-and-mortar concepts, Endy, Silk & Snow, and *the rest*, our first luxury retail brand. With all three brands adding and expanding our merchandising hierarchy, while also broadening our customer segmentation, it further reinforces our position as Canada's leading and most trusted specialty sleep retailer," said Schaefer.

"As we step into fiscal 2024, we remain focused on three key priorities: growth through innovation, our customer experience and our operational excellence. We will continue to invest in expanding our brands with cutting-edge sleep technologies and products, we will further develop personalized and exceptional customer experiences, and we will continue to streamline our operations to maximize synergies across the Company while preserving the unique identities of each of our brands. I am confident that by staying true to these priorities, we will continue to create value for all stakeholders and help Canadians achieve their best sleep every night," concluded Schaefer.

### Summary of Fourth Quarter Financial Results

| <i>(C\$ thousands unless otherwise stated; other than store and share data)</i> | Q4 2023    | Q4 2022    | Change | 2023       | 2022       | Change |
|---|------------|------------|--------|------------|------------|--------|
| Revenues  | \$ 255,602 | \$ 243,028 | 5.2 %  | \$ 935,044 | \$ 928,657 | 0.7 %  |

|  |           |           |                    |            |
|--|-----------|-----------|--------------------|------------|
| SSS <sup>(1)</sup>                         | (3.2 %)   | (11.5 %)  | (6.4 %)            | (1.8 %)    |
| Gross profit margin (%)                    | 37.7 %    | 37.5 %    | 37.2 %             | 36.7 %     |
| Stores opened <sup>(2)</sup>               | 5         | 2         | 14                 | 5          |
| Stores closed                              | -         | -         | 2                  | 1          |
| Stores renovated                           | 2         | -         | 2                  | -          |
| Operating EBITDA <sup>(1)</sup>            | \$ 51,356 | \$ 53,005 | (3.1 %) \$ 196,758 | \$ 218,559 |
| Operating EBITDA margin (%) <sup>(1)</sup> | 20.1 %    | 21.8 %    | 21.0 %             | 23.5 %     |
| Net income                                 |           |           |                    |            |
| attributable to the Company                | \$ 22,471 | \$ 40,469 | (44.5 %) \$ 71,192 | \$ 110,471 |
| Adjusted net income                        |           |           |                    |            |
| attributable to the Company <sup>(1)</sup> | \$ 19,308 | \$ 23,874 | (19.1 %) \$ 74,143 | \$ 102,868 |
| Basic EPS                                  | \$ 0.66   | \$ 1.14   | (42.1 %) \$ 2.06   | \$ 3.04    |
| Diluted EPS                                | \$ 0.65   | \$ 1.13   | (42.5 %) \$ 2.04   | \$ 3.01    |
| Basic adjusted EPS <sup>(1)</sup>          | \$ 0.57   | \$ 0.67   | (14.9 %) \$ 2.14   | \$ 2.83    |
| Diluted adjusted EPS <sup>(1)</sup>        | \$ 0.56   | \$ 0.67   | (16.4 %) \$ 2.12   | \$ 2.81    |

Revenues increased by \$12.6 million or 5.2% from \$243.0 million in Q4 2022 to \$255.6 million in Q4 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<sup>1</sup> by 3.2%.

Gross profit margin increased by 20 basis points from 37.5% in Q4 2022 to 37.7% in Q4 2023 due to an increase in average unit selling prices, coupled with lower product and transportation costs, leveraging of occupancy costs and a decrease in supplies expense. This increase was partially offset by higher delivery costs mainly driven by growth in eCommerce revenues, and higher inventory allowances and sales and distribution compensation.

Total G&A expenses increased by \$6.8 million or 11.7% from \$57.5 million in Q4 2022 to \$64.3 million in Q4 2023 mainly due to an increase in media and advertising costs, credit card and finance charges, telecommunication and information technology costs, compensation and other expenses partially offset by a decrease in bonus expenses.

Operating EBITDA<sup>1</sup> was \$51.4 million for Q4 2023, or 20.1% of Revenues, compared to \$53.0 million for Q4 2022, or 21.8% of Revenues, representing a decrease of \$1.6 million or 3.1% mainly due to an increase in G&A expenses, which were also impacted by incremental spend due to the acquisitions of Silk & Snow and Casper Canada, partially offset by an improved gross profit margin.

Finance related expenses (income) increased by \$17.9 million from income of \$15.5 million in Q4 2022 to expenses of \$2.4 million in Q4 2023 due to higher interest expenses on the Company's lease obligations and its senior secured credit facility, impacted by the higher interest rates and debt levels, an unrealized loss on the Company's interest rate swap and lower realized gains on the Company's share repurchases under the ASPP in Q4 2023. Additionally, this change was positively impacted by a \$4.7 million reduction to the Hush redemption liabilities in Q4 2023, offset by the \$20.5 million reduction to the redemption liabilities in Q4 2022. These adjustments to the redemption liabilities were to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.

Net income before income taxes in Q4 2023 decreased by \$19.3 million from \$49.0 million in Q4 2022 to \$29.7 million in Q4 2023. The Company's effective income tax rate increased by 630 basis points from 16.8% in Q4 2022 to 23.1% in Q4 2023. The change in the effective tax rate is mainly driven by the \$20.5 million adjustment in Q4 2022 due to the reduction of the Hush redemption liabilities which was partially offset by a \$4.7 million adjustment of the Hush redemption liabilities in Q4 2023 that are not deductible for tax purposes. The decrease in net income before tax partially offset by the increase in effective tax rate resulted in a decrease to income taxes of \$1.3 million in Q4 2023 versus Q4 2022.

Net income attributable to the Company for Q4 2023 decreased by \$18.0 million from \$40.5 million (\$1.14 per share) in Q4 2022 to \$22.5 million (\$0.66 per share) in Q4 2023.

Adjusted net income attributable to the Company<sup>1</sup> for Q4 2023 decreased by \$4.6 million from \$23.9 million (\$0.67 per share) in Q4 2022 to \$19.3 million (\$0.57 per share) in Q4 2023.

### Summary of Annual Financial Results

Revenues increased by \$6.3 million or 0.7% from \$928.7 million in 2022 to \$935.0 million in 2023. This increase was 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<sup>1</sup> by 6.4%.

Gross profit margin increased by 50 basis points from 36.7% in 2022 to 37.2% in 2023 due to an increase in average unit selling prices and lower product costs, partially offset by higher delivery costs mainly driven by growth in eCommerce Revenues, and higher inventory allowances, sales and distribution compensation and deleveraging of occupancy costs, which were also impacted by the Company's 14 new stores of which six stores were part of the Casper Canada acquisition.

Total G&A expenses increased by \$31.7 million or 16.2% from \$196.2 million in 2022 to \$227.9 million in 2023 mainly due to an increase in media and advertising, compensation, credit card and financing, telecommunication and information technology and other expenses as well as occupancy and depreciation expenses impacted by the acquisitions of Silk & Snow and Casper Canada.

Operating EBITDA<sup>1</sup> was \$196.8 million for 2023, or 21.0% of Revenues, compared to \$218.6 million for 2022, or 23.5% of Revenues, representing a decrease of \$21.8 million or 10.0% mainly due to an increase in G&A expenses, which were also impacted by the acquisitions of Silk & Snow and Casper Canada, partially offset by an improved gross profit margin.

Finance related expenses (income) increased by \$24.4 million from income of \$0.9 million in 2022 to expenses of \$23.5 million in 2023

due to higher interest expenses on the Company's lease obligations and its senior secured credit facility, impacted by the higher interest rates and debt levels, in addition to an unrealized loss on the Company's interest rate swap in 2023. Additionally, this change was positively impacted by a \$4.7 million reduction to the Hush redemption liabilities in 2023, offset by the \$20.5 million reduction to the redemption liabilities in 2022. These adjustments to the redemption liabilities were to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.

Net income before income taxes in 2023 decreased by \$49.3 million from \$146.0 million in 2022 to \$96.7 million in 2023. The Company's effective income tax rate increased by 180 basis points from 24.2% in 2022 to 26.0% in 2023. The change in the effective tax rate is mainly driven by the \$20.5 million adjustment in Q4 2022 due to the reduction of the Hush redemption liabilities which was partially offset by a \$4.7 million adjustment of the Hush redemption liabilities in Q4 2023 that are not deductible for tax purposes. The decrease in net income before tax partially offset by the increase in effective tax rate resulted in a decrease to income taxes of \$10.2 million in 2023 versus 2022.

Net Income attributable to the Company for 2023 decreased by \$39.3 million from \$110.5 million (\$3.04 per share) in 2022 to \$71.2 million (\$2.06 per share) in 2023.

Adjusted net income attributable to the Company<sup>1</sup> for 2023 decreased by \$28.8 million from \$102.9 million (\$2.83 per share) in 2022 to \$74.1 million (\$2.14 per share) in 2023.

Notes:

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

<sup>2</sup> Stores opened includes the six Casper stores acquired through the Casper Canada acquisition in April 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 March 7, 2024 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 March 14, 2024, 23:59 ET. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 713010#.

## 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, Dormez-vous, Endy, Silk & Snow, Hush, and most recently acquired, Casper Canada. The Company has omnichannel and eCommerce operations, including 304 corporate-owned stores and 19 warehouses across Canada. Recognized as one of Canada's Most Admired Corporate Cultures 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](http://ir.sleepcountry.ca).

## Non-IFRS and Other Measures

This news release refers to certain measures that are not recognized under IFRS<sup>®</sup> Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards, 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 Q4 2023, which is available on SEDAR+ at [sedarplus.ca](http://sedarplus.ca).

## Calculation of Non-IFRS and Other Measures

|   | <b>Q4</b>        |           | <b>Annual</b>     |            |
|---|------------------|-----------|-------------------|------------|
| <i>(C\$ thousands unless otherwise stated, except EPS)</i>                                      | <b>2023</b>      | 2022      | <b>2023</b>       | 2022       |
| <b>Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:</b> |                  |           |                   |            |
| Net income attributable to the Company  | \$ 22,471        | \$ 40,469 | \$ 71,192         | \$ 110,471 |
| Add impact of the following:  |                  |           |                   |            |
| Non-controlling interests   | 354              | 314       | 343               | 225        |
| Other expenses (income)   | (127)            | 65        | (550)             | (292)      |
| Finance related expenses (income)   | 2,416            | (15,533)  | 23,471            | (889)      |
| Income taxes  | 6,860            | 8,220     | 25,135            | 35,346     |
| Depreciation and amortization   | 18,244           | 17,176    | 69,615            | 65,633     |
| <b>EBITDA</b>   | <b>50,218</b>    | 50,711    | <b>189,206</b>    | 210,494    |
| Adjustments:  |                  |           |                   |            |
| Acquisition costs   | -                | 449       | 1,255             | 449        |
| ERP implementation costs  | -                | 603       | -                 | 2,637      |
| Share-based compensation  | 1,138            | 1,242     | 6,297             | 4,979      |
| Total adjustments   | \$ 1,138         | \$ 2,294  | \$ 7,552          | \$ 8,065   |
| <b>Operating EBITDA</b>   | <b>\$ 51,356</b> | \$ 53,005 | <b>\$ 196,758</b> | \$ 218,559 |
| <b>Operating EBITDA margin (%)</b>  | <b>20.1 %</b>    | 21.8 %    | <b>21.0 %</b>     | 23.5 %     |

## Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:

|  |           |           |           |            |
|--|-----------|-----------|-----------|------------|
| Net income attributable to the Company | \$ 22,471 | \$ 40,469 | \$ 71,192 | \$ 110,471 |
| Adjustments:                           |           |           |           |            |
| Acquisition costs                      | -         | 449       | 1,255     | 449        |

|  |                   |             |                   |            |
|--|-------------------|-------------|-------------------|------------|
| ERP implementation costs                               | -                 | 603         | -                 | 2,637      |
| Share-based compensation                               | <b>1,138</b>      | 1,242       | <b>6,297</b>      | 4,979      |
| Accretion expense                                      | <b>(4,070)</b>    | (18,370)    | <b>(2,880)</b>    | (13,850)   |
| Tax impact of all adjustments                          | <b>(231)</b>      | (519)       | <b>\$ (1,721)</b> | \$ (1,818) |
| Total adjustments                                      | <b>\$ (3,163)</b> | \$ (16,595) | <b>\$ 2,951</b>   | \$ (7,603) |
| <b>Adjusted net income attributable to the Company</b> | <b>\$ 19,308</b>  | \$ 23,874   | <b>\$ 74,143</b>  | \$ 102,868 |

### 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 Q4 2023 under the sections "Risk Factors" and those described in the Company's 2023 annual information form (the "AIF") filed on March 6, 2024, both of which can be accessed under the Company's profile on SEDAR+ at [sedarplus.ca](https://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 Q4 2024 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](mailto:investor.relations@sleepcountry.ca)

<https://ir.sleepcountry.ca/2024-03-06-Sleep-Country-Reports-Q4-Revenue-Growth-of-5-2-and-Annual-Revenue-Growth-of-0-7>