# Sleep Country Canada Holdings Inc.

## Management's Discussion and Analysis

March 31, 2024

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## 1. Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of May 7, 2024 and it is intended to assist readers in understanding the financial performance and financial condition of Sleep Country Canada Holdings Inc. (the "**Company**") for the first quarter ended March 31, 2024 and it should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and the accompanying notes for the first quarter ended March 31, 2024 and the audited consolidated financial statements of the Company and the accompanying notes for the year ended December 31, 2023 and the related MD&A.

### Basis of Preparation

All references in this MD&A to "**Q1 2024**" are to the Company's quarter ended March 31, 2024, "**Q1 2023**" are to the Company's quarter ended March 31, 2023 and "**Q1 2022**" are to the Company's quarter ended March 31, 2022.

The Company's Q1 2024 unaudited interim condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("**IFRS® Accounting Standards**") as applicable to interim financial statements, including International Accounting Standards ("**IAS® Standards"**) 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("**IASB®"**). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS Accounting Standards, have been omitted or condensed. Accordingly, the unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2023.

All amounts are presented in thousands of Canadian dollars, except number of stores, number of shares and per share amounts or unless otherwise indicated.

The unaudited interim condensed consolidated financial statements of the Company and the accompanying notes for the first quarter ended March 31, 2024 and this MD&A were reviewed by the Company's Audit Committee. They were approved by the Company's Board of Directors (the "**Board**") on May 7, 2024.

### Forward-looking Information

This MD&A, including, in particular, the sections below entitled "Factors Affecting the Results of Operations", "Outlook", "Liquidity and Capital Resources" and "Risk Factors", 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 indicators of whether, or the times at which, such events, performance or results will be achieved. All of the information in this MD&A 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 below under the sections "Risk Factors" and those described in the Company's 2023 annual information form (the "**AIF**") filed on March 6, 2024. A copy of the AIF 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 this MD&A 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.

## 2. Overview

The Company is Canada’s leading specialty sleep retailer driven by its purpose to transform lives by awakening Canadians to the power of sleep. Its vision is to champion sleep as the key to healthier, happier lives and help everyone achieve better tomorrows through better tonights.

The Company has an industry-leading sleep ecosystem which it continuously enhances through actively assessing opportunities to support its business model across infrastructure, channel, partnership and experience to best serve its customers' sleep needs.

Building on its 29-year foundation of success, the Company drives long-term sustainable growth for its stakeholders through its four strategic pillars: Sleep Well, People Well, Earth Well and Govern Well.

1. Sleep Well
    - The Company is focused on providing world-class customer experience, channel and product innovation and helping customers improve their well-being through the power of sleep.
2. People Well
    - The Company is committed to fairness and equity for its employees, partners, customers and communities. Its focus includes talent attraction and retention, diversity, inclusion and belonging (“**EDI&B**”), providing safe and respectful workplaces, and giving back to the communities where the Company lives and works.
3. Earth Well
    - The Company aims to achieve net-zero by 2040. It is focused on positively impacting the environment and reducing its carbon footprint by decarbonizing its operations, sourcing responsibly-made products and applying conscientious waste management.
4. Govern Well
    - The Company is focused on strong governance, compliance, ethics and integrity to build and maintain stakeholders' trust.

The Company believes the combination of its purpose, strategy and operations differentiates itself from its competitors. With its foundation, differentiated service model, unmatched sleep ecosystem, superior brand trust and commitment to customer experience, the Company has positioned itself as a leader in sleep.

The Company operates under three omnichannel retail banners: Sleep Country™, Dormez-vous™ and Casper™ ("**Casper Canada**") and three direct-to-consumer retail banners: Endy™, Hush™ and Silk & Snow™. These banners are collectively referred to as the "**Banners**".

The Sleep Country banner launched in Vancouver, British Columbia in 1994 and thereafter it has expanded across Canada (except in Quebec). Similarly, the Dormez-vous banner launched in Montreal, Quebec in 1994 and subsequently expanded within the province of Quebec. The Sleep Country and Dormez-vous banners offer their customers Canada’s largest domestic and imported mattress selection and complementary sleep related products. The Company provides its customers with elevated sleep expertise via its “Sleep Experts”, who are dedicated to matching all customers to their best night’s sleep, at all its customer touch points. The Sleep Country and Dormez-vous brands are highly recognized in the Canadian retail landscape.

In Q4 2021, the Company introduced its Sleep Country/Dormez-vous Express Stores in Walmart Canada locations. Each Express Store has an average footprint between 500 and 800 square feet and offers cash-and-carry products as well as traditional mattresses which are delivered with the Company's green-glove delivery service. A curated assortment of products, from the Company's leading mattress-in-a-box selection, to sheets, pillows and headboards, as well as a selection of traditional mattresses for customers to experience, are available at each Express Store location. These stores are staffed by the Company's highly trained Sleep Experts, who bring their renowned sleep expertise to Walmart Canada customers. As at March 31, 2024, the Company had 15 pilot Express Stores (December 31, 2023 – 19 stores) nationwide.

Endy introduced its first mattress-in-a-box offering in 2015 on its eCommerce platform. Through its online sales and digital capabilities, Endy has become one of Canada’s most recognized online sleep brands, offering customers an expanding product assortment to meet their sleep needs. In Q4 2023, Endy opened its first brick-and-mortar store providing existing and new customers with a new access point for customers to purchase Endy's sleep products.

Founded in 2018, Hush introduced its weighted blankets to consumers which were received with success. Thereafter, Hush has expanded its product offerings to include mattresses and a variety of sleep accessories which are sold through its eCommerce platforms and across numerous retail partners across North America.

In January 2023, the Company acquired Silk & Snow, a direct-to-consumer sleep retailer of thoughtfully made high-quality sleep and lifestyle products. Founded in 2017, Silk & Snow quickly became recognized as one of Canada’s top growing companies. In Q4 2023, the Company launched its first-ever store-within-a-store with two of its brands, Sleep Country and Silk & Snow, thereby bringing Silk & Snow into the tactile environment and providing customers with an expanded offering of elevated sleep essentials.

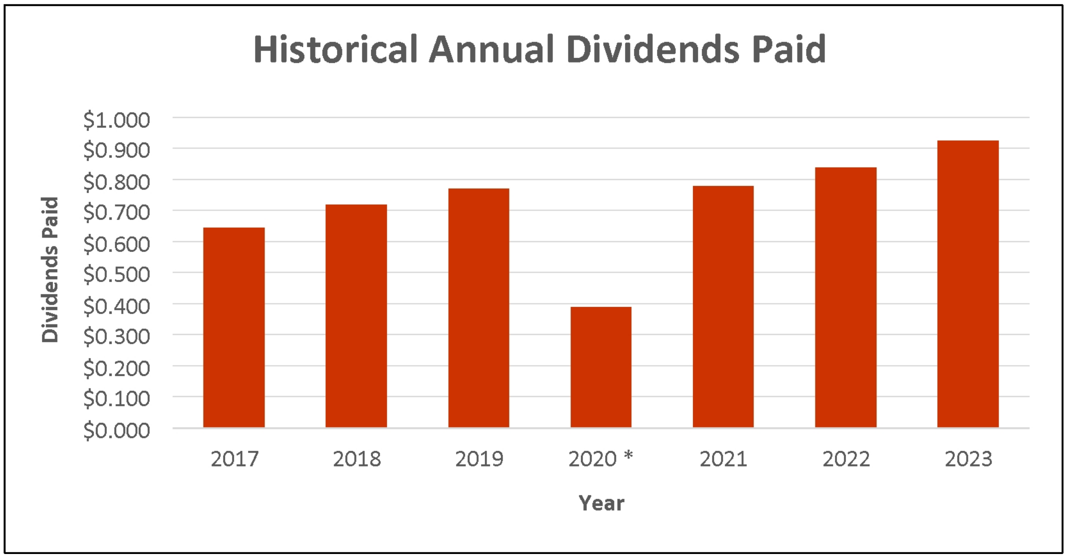
In April 2023, the Company acquired the Canadian operations of Casper Sleep Inc., including six retail stores. The Casper brand is one of the most recognized sleep brands in the world. Its product offering includes a wide range of sleep products including mattresses, bed frames, pillows, bedding and other sleep accessories.

In November 2023, the Company launched its first ultra-premium retail concept store, the rest™. The rest is built on the Company's foundation and sleep expertise, offering customers a selection of the world's most luxurious mattresses and a finely curated selection of ultra-premium quality accessories. The retail boutique brings customers a bespoke shopping experience providing them with the utmost personal care and guidance to find their absolute best rest.

## 3. Dividends and Share Repurchases

<u>Dividends</u>

The Board has periodically declared dividends on the Company's common shares. The chart below illustrates the annual dividends paid from 2017 to 2023.




* In 2020, the Company suspended its Q2 2020 and Q3 2020 dividends as part of the Company's business continuity measures due to the COVID-19 pandemic.

In the last twelve quarters, the Company declared and paid the following dividends:

| Date of declaration | Record date | Payment date | Dividend declared (per common share) |
|---|---|---|---|
| May 10, 2021 | May 21, 2021 | May 31, 2021 | $ 0.195 |
| August 3, 2021 | August 20, 2021 | August 30, 2021 | $ 0.195 |
| November 11, 2021 | November 19, 2021 | November 29, 2021 | $ 0.195 |
| February 8, 2022 | February 18, 2022 | February 28, 2022 | $ 0.195 |
| May 4, 2022 | May 20, 2022 | May 30, 2022 | $ 0.215 |
| July 28, 2022 | August 19, 2022 | August 29, 2022 | $ 0.215 |
| November 4, 2022 | November 21, 2022 | November 30, 2022 | $ 0.215 |
| February 9, 2023 | February 17, 2023 | February 28, 2023 | $ 0.215 |
| May 8, 2023 | May 24, 2023 | May 31, 2023 | $ 0.237 |
| August 10, 2023 | August 25, 2023 | August 31, 2023 | $ 0.237 |
| November 9, 2023 | November 24, 2023 | November 30, 2023 | $ 0.237 |
| February 5, 2024 | February 21, 2024 | February 29, 2024 | $ 0.237 |

All dividends are designated as "eligible dividends" for Canadian tax purposes.

On May 7, 2024, the Company declared a dividend of $0.237 per common share, which will be paid on May 23, 2024 to holders of the common shares of record as at the close of business on May 30, 2024.

Share Repurchases

On March 9, 2023, the Company announced that it received approval from the Toronto Stock Exchange ("**TSX**") for a normal course issuer bid ("**NCIB**"). Pursuant to the NCIB, the Company was permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,675,550 of the Company's common shares, representing approximately 10.0% of its public float of 26,755,502 as of February 28, 2023. Purchases under the NCIB were completed on March 8, 2024.

On March 7, 2024, the Company announced that it received approval from the TSX for a new NCIB. Pursuant to the NCIB, the Company is permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,368,443 of the Company's common shares, representing approximately 10.0% of its public float of 23,684,435 as of February 29, 2024. Purchases were permitted to commence on on March 11, 2024 and the NCIB will conclude on the earlier of the date on which purchases under the bid have been completed and March 10, 2025. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 15,927 shares except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

The Company established an automatic share purchase program ("**ASPP**") in connection with its NCIB to facilitate the purchase of shares during times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or a self-imposed blackout period. Before entering a blackout period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, TSX rules and applicable securities laws. The Company records a liability for share repurchase commitment during blackout period based on the parameters of the NCIB and ASPP in its consolidated statements of financial position. As at March 31, 2024, an estimated maximum obligation of $11,361 (December 31, 2023 - $20,009) was outstanding under the ASPP in other current liabilities.

In Q1 2024, the Company did not purchase any common shares under its NCIB. In Q1 2023, the Company purchased 299,519 common shares for cancellation at an average price of $24.25 for total consideration of $7.3 million.

## 4. Factors Affecting the Results of Operations

Revenues

The Company's revenues are derived from the sale of mattresses and accessories through its Banners. Mattresses revenue includes sales of mattresses, lifestyle adjustable bases, boxsprings and frames. Accessories revenue includes the sales of pillows, sheets, duvets, weighted blankets, quilts, duvet covers, mattress toppers, mattress and pillow protectors, pet beds, throws, cushions, sleep bundles, headboards, footboards, nightstands, bath linens, sleep wear, delivery fees and warranties.

Revenue is recognized when the performance obligation is deemed to be fulfilled and the control of the products has been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience.

Building on the Company's strong brands and market position, the Company seeks opportunities to grow its same store sales (or "**SSS**"- see section "Non-IFRS and Other Measures"), which includes revenues from both its existing retail stores and digital channels. The Company's revenue growth initiatives include:

- adding stores in both new and existing markets;
- partnering with new third-party online marketplace sellers;
- growing and optimizing its eCommerce platforms;
- expanding its product assortment;
- reaching more customers through targeted marketing;
- growing lifetime value with existing customers through serving more of their sleep needs; and
- growing revenue through strategic channel and brand partnerships.

SSS is primarily driven by:

- changes in customer traffic across sales channels through effective marketing and word of mouth;
- changes in the conversion rate of shoppers into buyers;
- changes in the average transaction size;
- changes in economic conditions and consumer confidence; and
- customer loyalty through effective customer engagement and satisfaction.

The Company's revenues are impacted by competition from other retailers that sell similar products and by seasonal patterns.

Product Expansion Opportunities

One of the Company's goals is to serve its customers' sleep needs by offering them a variety of best-in-class sleep products available in the market across all its Banners. Over the last few years, the Banners have introduced new innovative mattresses, including hybrid mattresses-in-a-box, as well as sleep products, some of which include adjustable bases, pillows, sheets, duvets, duvet covers, mattress protectors, pillow protectors, mattress toppers, weighted blankets, bath towels and sleepwear.

The Company continues to deepen and expand its product assortment through in-house innovations, sourcing new sleep products, strategic business partnerships and acquisitions.

To provide its customers with the best available sleep products, the Company has entered into several exclusive partnerships with industry leaders in the North American and European sleep space:

- Simba, a U.K. leading mattress-in-a-box and sleep accessories retailer;
- Malouf, a U.S. industry leader in innovative bedding and furniture products; and;
- Purple Innovation, a U.S. mattress and bedding leader, that uses innovation and technology to create comfort solutions including its signature Purple® Mattress.

Additionally, the Company has established drop ship arrangements with select vendors to provide sleep products from brands such as Nautica, Eddie Bauer, Laura Ashley, Sheex, Tuck and If Only Home. This program enables the delivery of select sleep products to be shipped directly from the Company's vendors to its customers. This capability allows the Company to offer its customers an increased product assortment without increasing its inventory risk while achieving time, resource and cost efficiencies. The Company continues to strategically expand its drop ship program.

The Company will continue to explore opportunities to expand its product assortment to better meet its customers' sleep needs.

Online Expansion Opportunities

The Company has multiple eCommerce platforms: sleepcountry.ca, dormezvous.com, endy.com, hush.ca, hushblankets.com, silkandsnow.com and casper.ca.

The Company's eCommerce platforms provide customers access to the full assortment of products, both in-store and online, across Canada. The Company's banners - Hush and Silk & Snow – also retail in the USA through their eCommerce platforms. Additionally, the Company has a wide range of products that are only available online through the Company's various drop ship arrangements. These websites are supported via phone and/or online chat providing customers access to sleep expertise like the in-store customer experience.

The Company has also expanded its sleep ecosystem through partnerships with third-party online marketplaces to increase its customer reach, diversify its sales channels and further bolster its omnichannel offering. The Company partnered with Walmart to supply mattresses and sleep accessories on the Walmart.ca marketplace. Through this partnership, the Company offers Walmart customers a wide assortment of mattress brands, in addition to its leading accessories including pillows, pillowcases, sheets, weighted blankets, mattress protectors, mattress toppers, platforms and pet beds.

The Company also has a partnership with Best Buy Canada, one of Canada's largest omnichannel retailers, to offer a selection of the Company's sleep solutions on the Best Buy Marketplace. The Company exclusively retails the traditional mattress category on BestBuy.ca, offering a wide assortment of the Company's most recognized mattress brands. In addition, the Company offers lifestyle bases and a leading assortment of sleep accessories including pillows, sheets, duvets on the Best Buy Marketplace.

Store Expansion Opportunities

The Company has the ability to add new stores in existing markets (in-fill stores), satellite markets and new markets. An existing market or in-fill opportunity is a pre-existing built-out region in which the Company already has an established store presence serviced by one or more existing warehouses. A satellite market is a new region that is adjacent or close to a pre-existing built-out region, which benefits from advertising spill and is serviced logistically from the nearby warehouse. A new market is a brand-new territory in which the Company did not previously operate, requiring incremental advertising, warehousing and distribution/logistics.

The Company has successfully expanded its store network every year since its inception in 1994. The capacity to expand its store presence depends on the Company's ability to choose new locations, new markets, to hire and train new associates for its stores and warehouses and create top-of-mind brand awareness for its Banners.

Stores in enclosed malls provide the Company with a unique opportunity to gain the attention of the captive audience, while capitalizing on the decline of department stores in recent years. As at March 31, 2024, the Company had 19 mall stores in Canada.

The Company's site selection strategy is focused on maximizing sales per store and per region throughout its store network. Prior to identifying and ultimately selecting locations for new stores, the Company conducts extensive analysis utilizing the following factors:

- demographics including population density, household income and population growth rates;
- store visibility and accessibility;
- lease and advertising economics;
- competitive dynamics;
- overlap with existing stores and distribution footprint; and
- potential cannibalization of existing stores.

In terms of regional expansion, once a target area has been determined, the Company focuses on ensuring the Company can successfully incorporate its culture, vision and purpose into the new region.

To attain this goal, the Company starts by ensuring its new core regional team is comprised of existing associates in leadership roles who are willing to relocate. The experienced team is then supplemented with local hires, who receive extensive in-store and classroom training.

The following table summarizes the Company's corporate-owned store count for the periods ended March 31, 2024 and March 31, 2023:

| | | | | | **Q1 2024** |
|---|---|---|---|---|---|
| | Number of stores, beginning of period | Stores newly opened | Stores closed | **Number of stores, end of period** | Stores renovated |
| Sleep Country[1] | 229 | 2 | - | **231** | - |
| Dormez-vous[1] | 63 | 2 | - | **65** | - |
| Casper | 6 | - | - | **6** | - |
| Endy | 1 | - | - | **1** | - |
| Sleep Country/Silk & Snow | 1 | - | - | **1** | - |
| the rest | 1 | - | - | **1** | - |
| Total | 301 | 4 | - | **305** | - |

| | | | | | **Q1 2023** |
|---|---|---|---|---|---|
| | Number of stores, beginning of period | Stores newly opened | Stores closed | **Number of stores, end of period** | Stores renovated |
| Sleep Country[1] | 227 | 1 | 1 | **227** | - |
| Dormez-vous[1] | 62 | 1 | - | **63** | - |
| Casper | - | - | - | **-** | - |
| Endy | - | - | - | **-** | - |
| Sleep Country/Silk & Snow | - | - | - | **-** | - |
| the rest | - | - | - | **-** | - |
| Total | 289 | 2 | 1 | **290** | - |

Note:

(1) Excludes the Company's pilot Express Stores operating in Walmart Canada licensee spaces.

Store Design

The Company continuously evaluates its store design to provide customers with the optimal shopping experience. As at March 31, 2024, there are 253 corporate-owned Sleep Country/Dormez-vous stores or 85% of the Sleep Country/Dormez-vous store network that feature the store design introduced in 2014, of which 93 are new stores, 149 are renovated stores and 11 are relocations of existing stores. The Company is developing a new store design that will be introduced in 2024.

Competition

The sleep industry is highly competitive and includes national and regional full-line furniture retailers, department stores, mass merchants, small regional specialty bedding retailers, eCommerce retailers and online marketplaces. The Company is Canada's leading specialty sleep retailer with its national retail store network and multiple eCommerce platforms, including its retail presence on several prominent third-party online marketplaces. The Company believes it can maintain and strengthen its leading market position through its differentiated sleep ecosystem, trusted brands, unmatched product assortment, superior sleep expertise and customer experience. The Company continues to actively assess opportunities for infrastructure, channels, partnerships, products and customer experience improvements across all its Banners to best serve Canadians' sleep needs.

Supply Chain

The Company relies on third party manufacturers to obtain its merchandise. Merchandise is sourced domestically in Canada as well as from countries around the world (for example - U.S., China, Italy and Spain). The Company can be adversely impacted by political, regulatory, economic and legal factors including duties, tariffs, sanctions, pandemics, labour strikes, currency exchange rates and other factors relating to foreign trade.

Seasonality

The retail mattress industry is affected by seasonal conditions. The Company typically experiences higher sales and a greater proportion of income during the third and fourth quarters due to seasonal factors including the concentration of the summer and holiday season. Sales have historically trended lower in the first quarter as consumers tighten their spending after the holiday season and shop less in the cold winter months.

The table below illustrates the Company's average percentage of annual sales by quarter for 2019, 2022 and 2023 from the Company's banners. Due to the uncertainties of the impact of the COVID-19 pandemic in Canada in 2020 and 2021, the Company did not include 2020 and 2021 in the below mentioned sales seasonality. The extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated store closures, are uncertain and may have had an impact on seasonality in the retail sleep space.

| | |
|---|---|
| First quarter | 22% |
| Second quarter | 24% |
| Third quarter | 28% |
| Fourth quarter | 26% |
| Annual total | 100% |

Gross Profit

Gross Profit is calculated from Revenues less Cost of Sales. Gross Profit Margin is defined as Gross Profit divided by Revenues.

Cost of Sales includes product-related costs - net of rebates, sales and distribution costs including compensation, occupancy and depreciation costs. Rebates are driven by the volume of inventory purchased. As an additional incentive, certain suppliers offer step-up thresholds for higher volume rebates. Rebates on inventories sold are recorded as a reduction to Cost of Sales.

Gross Profit Margin is affected by changes in average unit selling prices ("**AUSP**"), sales product mix and Cost of Sales.

## 5. Interim MD&A - Quarterly Highlights

| *(C$ thousands unless otherwise stated; other than store count and EPS)* | Q1 2024 | 2023 | Change |
|---|---|---|---|
| Revenues | **$ 209,715** | $ 206,495 | 1.6% |
| SSS (%)(1) | **(1.6%)** | (6.2%) | |
| Stores opened(2) | **4** | 2 | |
| Stores closed(2) | **-** | 1 | |
| Gross profit margin (%) | **34.8%** | 34.3% | |
| Operating EBITDA(1) | **$ 38,388** | $ 41,360 | (7.2%) |
| Operating EBITDA margin (%)(1) | **18.3%** | 20.0% | |
| Net income | **$ 8,939** | $ 11,293 | (20.8%) |
| Net income attributable to the Company | **$ 8,735** | $ 11,330 | (22.9%) |
| Adjusted net income attributable to the Company(1) | **$ 9,557** | $ 13,248 | (27.9%) |
| Basic EPS | **$ 0.26** | $ 0.33 | (21.2%) |
| Diluted EPS | **$ 0.26** | $ 0.32 | (18.8%) |
| Basic adjusted EPS(1) | **$ 0.28** | $ 0.38 | (26.3%) |
| Diluted adjusted EPS(1) | **$ 0.28** | $ 0.37 | (24.3%) |

Notes:

(1) SSS is a supplementary financial measure, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled “Non-IFRS and Other Measures” for further details concerning how the Company calculates SSS, Operating EBITDA, Operating EBITDA margin, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

(2) See the section titled "Store Expansion Opportunities" for further details on opened and closed stores.

**Highlights of Results in Q1 2024**

Q1 2024 compared to Q1 2023 - See "Non-IFRS and Other Measures".

- Revenues increased by $3.2 million or 1.6% from $206.5 million in Q1 2023 to $209.7 million in Q1 2024 mainly due to incremental revenue earned from new stores, wrap stores opened in 2023 and the acquisition of Casper Canada completed in April 2023. This increase was partially offset by a decrease in SSS by 1.6%;
- Revenues attributed to eCommerce increased by 220 basis points from 22.3% in Q1 2023 to 24.5% in Q1 2024;
- Gross profit increased by $2.1 million or 3.0% from $70.8 million in Q1 2023 to $72.9 million in Q1 2024;
- Gross profit margin increased by 50 basis points from 34.3% in Q1 2023 to 34.8% in Q1 2024;
- Operating EBITDA decreased by $3.0 million or 7.2% from $41.4 million in Q1 2023 to $38.4 million in Q1 2024 mainly due to higher advertising, compensation, telecommunication and information technology and mattresses recycling and donations expenses that were also impacted by incremental costs from Casper Canada acquired in April 2023; this was partially offset by an improved gross profit margin and lower professional fees;
- Operating EBITDA margin decreased by 170 basis points from 20.0% in Q1 2023 to 18.3% in Q1 2024;
- Net income attributable to the Company decreased by $2.6 million or 22.9% from $11.3 million in Q1 2023 to $8.7 million in Q1 2024 mainly due to the decrease in Operating EBITDA and an increase in finance related expenses, depreciation and amortization expenses; partially offset by a decrease in income taxes;
- Adjusted net income attributable to the Company decreased by $3.6 million or 27.9% from $13.2 million in Q1 2023 to $9.6 million in Q1 2024;
- Diluted EPS decreased by $0.06 or 18.8% from $0.32 in Q1 2023 to $0.26 in Q1 2024; and
- Diluted adjusted EPS decreased by $0.09 or 24.3% from $0.37 in Q1 2023 to $0.28 in Q1 2024.

**Outlook**

The Company continues to make investments supporting the Company's long-term, profitable growth strategy and reinforcing the Company's position as Canada's leading provider of sleep. The Company aims to make significant investments to strengthen its omnichannel and digital capabilities, deepen relationships with new and loyal customers, grow its assortment of innovative and relevant sleep products and expand its customer base.

Key initiatives planned for 2024 include continuing to:

- explore new growth opportunities to further expand the Company's business in sleep;
- expand its sleep product assortment through strategic partnerships and in-house innovation;
- invest in an elevated in-store experience across its retail store network including rolling out new and innovative store formats for planned renovations and new stores;
    - launch new SCC/DV store design in select stores in 2024;
    - open a minimum of six new stores on a consolidated basis including opening multi-banner stores and store-within-a-store layouts;
- continued investments to the Company's digital transformation projects, including its ERP enhancements to evolve front-end and back-end operations, marketing capabilities and customer relationship management tools; and
- continue to focus on strategic initiatives to leverage strengths across the Company's banners to drive efficiencies on a consolidated basis.

### Selected Financial Information

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the unaudited interim condensed consolidated financial statements for Q1 2024 and Q1 2023.

| | | | Q1 |
|---|---|---|---|
| *(C$ thousands unless otherwise stated; other than EPS)* | **2024** | 2023 | Change |
| **Consolidated Income Statement** | | | |
| Revenues | **$ 209,715** | $ 206,495 | 1.6% |
| Cost of sales | **136,802** | 135,706 | 0.8% |
| Gross profit | **72,913** | 70,789 | 3.0% |
| Selling, general and administrative expenses | **52,782** | 48,119 | 9.7% |
| Operating income | **20,131** | 22,670 | (11.2%) |
| Finance related expenses | **8,324** | 6,469 | 28.7% |
| Other expenses (income) | **(568)** | 540 | (205.2%) |
| Net income before income taxes | **12,375** | 15,661 | (21.0%) |
| Income taxes | **3,436** | 4,368 | (21.3%) |
| **Net income** | **$ 8,939** | $ 11,293 | (20.8%) |
| **Net income attributable to the Company** | **$ 8,735** | $ 11,330 | (22.9%) |
| **EBITDA(1)** | **$ 37,829** | $ 39,668 | (4.6%) |
| **Operating EBITDA(1)** | **$ 38,388** | $ 41,360 | (7.2%) |
| **Operating EBITDA margin (%)(1)** | **18.3%** | 20.0% | |
| **Adjusted net income attributable to the Company(1)** | **$ 9,557** | $ 13,248 | (27.9%) |
| **Basic EPS** | **$ 0.26** | $ 0.33 | (21.2%) |
| **Diluted EPS** | **$ 0.26** | $ 0.32 | (18.8%) |
| **Basic adjusted EPS(1)** | **$ 0.28** | $ 0.38 | (26.3%) |
| **Diluted adjusted EPS(1)** | **$ 0.28** | $ 0.37 | (24.3%) |
| **Dividends declared per share** | **$ 0.237** | $ 0.215 | 10.2% |
| | **31-Mar-24** | **31-Dec-23** | |
| **Total assets** | **$ 1,110,654** | **$ 1,112,474** | |
| **Total long-term lease liabilities and debt** | **$ 463,023** | **$ 449,292** | |

Note:

(1) EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the unaudited interim condensed consolidated financial statements for Q1 2023 and Q1 2022.

| | | Q1 | |
|---|---|---|---|
| *(C$ thousands unless otherwise stated; other than EPS)* | **2023** | 2022 | Change[2] |
| **Consolidated Income Statement** | | | |
| Revenues | **$ 206,495** | $ 207,028 | (0.3%) |
| Cost of sales | **135,706** | 135,395 | 0.2% |
| Gross profit | **70,789** | 71,633 | (1.2%) |
| Selling, general and administrative expenses | **48,119** | 43,124 | 11.6% |
| Operating income | **22,670** | 28,509 | (20.5%) |
| Finance related expenses | **6,469** | 3,029 | 113.6% |
| Other expenses | **540** | 56 | 864.3% |
| Net income before income taxes | **15,661** | 25,424 | (38.4%) |
| Income taxes | **4,368** | 6,906 | (36.8%) |
| **Net income** | **$ 11,293** | $ 18,518 | (39.0%) |
| **Net income attributable to the Company** | **$ 11,330** | $ 18,413 | (38.5%) |
| **EBITDA[1]** | **$ 39,668** | $ 44,239 | (10.3%) |
| **Operating EBITDA[1]** | **$ 41,360** | $ 46,714 | (11.5%) |
| **Operating EBITDA margin (%)[1]** | **20.0%** | 22.6% | |
| **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%) |
| **Dividends declared per share** | **$ 0.215** | $ 0.195 | 10.3% |
| | **31-Mar-23** | **31-Dec-22** | |
| **Total assets** | **$ 1,040,065** | **$ 1,021,719** | |
| **Total long-term lease liabilities and debt** | **$ 412,315** | **$ 374,252** | |

Notes:

(1) EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

(2) See the Q1 2023 MD&A for discussion related to performance analysis.

## 6. First Quarter 2024 versus First Quarter 2023

Revenues

Revenues increased by $3.2 million or 1.6% from $206.5 million in Q1 2023 to $209.7 million in Q1 2024 mainly due to incremental revenue earned from new stores, wrap stores opened in 2023 and the acquisition of Casper Canada completed in April 2023. This increase was partially offset by a decrease in SSS by 1.6% (See "Non-IFRS and Other Measures").

Revenues attributed to eCommerce increased by 220 basis points from 22.3% in Q1 2023 to 24.5% in Q1 2024.

The increase in Revenues by $3.2 million was comprised of a $2.2 million increase in mattresses revenues and a $1.0 million increase in accessories revenues in Q1 2024 versus Q1 2023.

| | | | | | | | **Q1** |
|---|---|---|---|---|---|---|---|
| *(C$ millions unless otherwise stated)* | | **2024** | | 2023 | | Change | Change (%) |
| Mattresses | **$** | **157.6** | $ | 155.4 | $ | 2.2 | 1.4% |
| Accessories | **$** | **52.1** | $ | 51.1 | $ | 1.0 | 2.0% |
| Total | **$** | **209.7** | $ | 206.5 | $ | 3.2 | 1.5% |

Gross profit

Gross profit increased by $2.1 million from $70.8 million in Q1 2023 to $72.9 million in Q1 2024. Gross profit margin increased by 50 basis points from 34.3% in Q1 2023 to 34.8% in Q1 2024. The increase in gross profit margin in Q1 2024 versus Q1 2023 was mainly a result of the following:

- inventory and other directly related expenses decreased, as percentage of Revenues, by 1.3% from 41.8% in Q1 2023 to 40.5% in Q1 2024 primarily due to higher AUSP and lower product costs, partially offset by higher transportation costs;
- depreciation expenses increased as a percentage of Revenues by 0.2% from 5.4% in Q1 2023 to 5.6% in Q1 2024 ;
- store occupancy costs increased, as a percentage of Revenues, by 0.3% from 3.7% in Q1 2023 to 4.0% in Q1 2024; and
- sales and distribution compensation expenses increased, as a percentage of Revenues, by 0.4% from 14.0% in Q1 2023 to 14.4% in Q1 2024 due to an increase in compensation expenses incurred in the regular course of business.

Selling, general and administrative ("S**G&A**") expenses

Total SG&A expenses increased by $4.7 million or 9.7% from $48.1 million in Q1 2023 to $52.8 million in Q1 2024, and, as a percentage of Revenues, SG&A expenses increased from 23.3% of Revenues in Q1 2023 to 25.2% of Revenues in Q1 2024.

| | | | | | **Q1** |
|---|---|---|---|---|---|
| *(C$ millions unless otherwise stated)* | **2024** | **% of Revenues** | 2023 | % of Revenues | Change |
| Media and advertising expenses[1] | **$ 17.3** | **8.3%** | $ 15.4 | 7.5% | $ 1.9 |
| Salaries, wages and benefits[2] | **12.4** | **5.9%** | 11.4 | 5.5% | 1.0 |
| Credit card and finance charges | **5.0** | **2.4%** | 4.8 | 2.3% | 0.2 |
| Occupancy charges | **3.0** | **1.4%** | 2.9 | 1.4% | 0.1 |
| Professional fees | **2.2** | **1.0%** | 2.8 | 1.4% | (0.6) |
| Telecommunication and information technology[3] | **4.2** | **2.0%** | 3.1 | 1.5% | 1.1 |
| Mattresses recycling and donations | **1.3** | **0.6%** | 0.7 | 0.3% | 0.6 |
| Depreciation and amortization | **6.0** | **2.9%** | 5.8 | 2.8% | 0.2 |
| Other | **1.4** | **0.7%** | 1.2 | 0.6% | 0.2 |
| **Total SG&A expenses** | **$ 52.8** | **25.2%** | $ 48.1 | 23.3% | $ 4.7 |

Notes:

(1) Media and advertising expenses increased by $1.9 million due to an increase in online advertising impacted by the incremental spend by Casper Canada acquired in April 2023, as well as, increases in television and radio advertising and production costs. These increases were partially offset by decreases in newspaper advertising and public relations costs.

(2) Salaries, wages and benefits increased by $1.0 million mainly due to an increase in compensation expenses incurred in the regular course of business and incremental headcount from the acquisition Casper Canada partially offset by a decrease in LTIP expenses due to an adjustment on the performance factor on PSUs.

(3) Telecommunication and information technology expenses increased by $1.1 million mainly due to increases in software licensing fees and support expenses.

EBITDA

EBITDA decreased by $1.9 million or 4.6% from $39.7 million in Q1 2023 to $37.8 million in Q1 2024. The decrease was mainly due to higher advertising, compensation, telecommunication and information technology and mattresses recycling and donations expenses that were also impacted by incremental costs due to the acquisition of Casper Canada in April 2023. These increases were partially offset by an improved gross profit margin and lower professional fees. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA was $38.4 million for Q1 2024, or 18.3% of Revenues, compared to $41.4 million for Q1 2023, or 20.0% of Revenues, representing a decrease of $3.0 million or 7.2% mainly due to the decrease in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses

Finance related expenses increased by $1.8 million from $6.5 million in Q1 2023 to $8.3 million in Q1 2024 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 and a higher unrealized loss on the Company's interest rate swap. These increases were partially offset by a decrease in accretion expense due to lower redemption liabilities related to the Hush acquisition and lower realized losses on the Company's share repurchases under the ASPP.

Other expenses (income)

Other expenses (income) decreased by $1.1 million from expenses of $0.5 million in Q1 2023 to income of $0.6 million in Q1 2024. This change was mainly due to interest income earned on the convertible note receivable and realized gains on foreign exchange, partially offset by unrealized losses on the convertible note receivable and warrant, as well as unrealized losses on foreign exchange.

Income taxes

Income taxes decreased by $1.0 million from Q1 2023 to Q1 2024 mainly due to the decrease in net income before income taxes by $3.3 million from $15.7 million in Q1 2023 to $12.4 million in Q1 2024. The Company’s effective income tax rate decreased by 10 basis points from 27.9% in Q1 2023 to 27.8% in Q1 2024.

Net income attributable to the Company

Net income attributable to the Company for Q1 2024 decreased by $2.6 million from $11.3 million ($0.33 per share) in Q1 2023 to $8.7 million ($0.26 per share) in Q1 2024.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q1 2024 decreased by $3.6 million from $13.2 million ($0.38 per share) in Q1 2023 to $9.6 million ($0.28 per share) in Q1 2024. See “Non-IFRS and Other Measures”.

## 7. Summary of Quarterly Results

The Company's Revenues are impacted by seasonality, with the third quarter typically generating the greatest contribution to revenues and the first quarter the least. Accordingly, results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year. The following table displays the Company's financial performance for the last eight quarters and it has been prepared in accordance with IFRS, except where indicated.

| *(C$ thousands unless otherwise stated, except EPS)* | **Q1 2024** | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **$ 209,715** | $ 255,602 | $ 255,748 | $ 217,199 | $ 206,495 | $ 243,028 | $ 251,026 | $ 227,575 |
| SSS (%)(1) | **(1.6%)** | (3.2%) | (5.5%) | (10.9%) | (6.2%) | (11.5%) | (11.1%) | 15.1% |
| Gross profit | **$ 72,913** | $ 96,267 | $ 101,447 | $ 78,970 | $ 70,789 | $ 91,075 | $ 96,623 | $ 81,700 |
| Gross profit margin (%) | **34.8%** | 37.7% | 39.7% | 36.4% | 34.3% | 37.5% | 38.5% | 35.9% |
| EBITDA(1) | **$ 37,829** | $ 50,218 | $ 57,893 | $ 41,428 | $ 39,668 | $ 50,711 | $ 63,683 | $ 51,866 |
| Operating EBITDA(1) | **$ 38,388** | $ 51,356 | $ 59,839 | $ 44,204 | $ 41,360 | $ 53,005 | $ 65,603 | $ 53,242 |
| Operating EBITDA margin (%)(1) | **18.3%** | 20.1% | 23.4% | 20.4% | 20.0% | 21.8% | 26.1% | 23.4% |
| Net income attributable to the Company | **$ 8,735** | $ 22,471 | $ 24,705 | $ 12,685 | $ 11,330 | $ 40,469 | $ 28,926 | $ 22,665 |
| Adjusted net income attributable to the Company(1) | **$ 9,557** | $ 19,308 | $ 26,790 | $ 14,796 | $ 13,248 | $ 23,874 | $ 32,457 | $ 25,739 |
| Basic EPS | **$ 0.26** | $ 0.66 | $ 0.71 | $ 0.36 | $ 0.32 | $ 1.14 | $ 0.80 | $ 0.61 |
| Diluted EPS | **$ 0.26** | $ 0.65 | $ 0.70 | $ 0.36 | $ 0.32 | $ 1.13 | $ 0.79 | $ 0.61 |
| Basic adjusted EPS(1) | **$ 0.28** | $ 0.57 | $ 0.77 | $ 0.43 | $ 0.38 | $ 0.67 | $ 0.90 | $ 0.70 |
| Diluted adjusted EPS(1) | **$ 0.28** | $ 0.56 | $ 0.76 | $ 0.42 | $ 0.37 | $ 0.67 | $ 0.89 | $ 0.69 |

Note:

(1) SSS is a supplementary financial measure, EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates SSS, EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

## 8. Segment Reporting

The Company manages its business on the basis of five operating segments, Sleep Country/Dormez-vous, Endy, Hush, Silk & Snow, and Casper Canada which is consistent with the internal reporting provided to the chief operating decision-maker, the Chief Executive Officer ("**CEO**"). The Company has only one reportable segment as the operating segments meet the aggregation criteria of IFRS 8 - Operating Segments. The Company aggregates these reporting segments because the nature of products, services, methods of distribution and economic characteristics are similar. The Company operates primarily in Canada, its country of domicile.

## 9. Liquidity and Capital Resources

Liquidity

The Company's primary sources of cash consist of existing cash balances, operating activities and available credit facilities. The Company's primary uses of cash are to fund operating expenses, capital expenditures, finance costs, tax expenses, principal debt payments, dividends, business acquisitions, investments and share repurchases.

The Company believes cash generated from operations, together with cash on hand and amounts available under the Company's credit facilities will be sufficient to meet its future cash requirements. However, the Company's ability to fund future cash requirements will depend on its future operating performance. This could be affected by general economic, financial and other factors including factors beyond its control, despite the risk management strategies that the Company puts in place. See the section entitled "Risk Factors" in the AIF for a discussion of the various risks and uncertainties that may affect the Company's ability to fund its future cash requirements.

The Company reviews new store openings, acquisitions and investment opportunities in the normal course of its business and may, if suitable opportunities arise, realize these opportunities to meet the Company's business strategy. Historically, the funding for any such acquisitions or investments has come from cash flow generated from operating activities and/or additional debt.

The Company's cash balance was $31.1 million with an additional $83.3 million (not including the $100.0 million accordion) of liquidity available under the Company's credit facility as at March 31, 2024.

A summary of net cash flows by activities is presented below for Q1 2024 and Q1 2023:

| | | **Q1** |
|---|---|---|
| *(C$ thousands unless otherwise stated)* | **2024** | 2023 |
| Cash flows provided by operating activities | **$ 1,639** | $ 4,785 |
| Cash flows used by investing activities | **(2,938)** | (48,794) |
| Cash flows provided by (used by) financing activities | **(5,039)** | 10,494 |
| Effects of foreign currency exchange rate changes on cash | **26** | 8 |
| Net decrease in cash | **(6,312)** | (33,507) |
| Cash at beginning of the period | **37,371** | 78,318 |
| Cash at end of the period | **$ 31,059** | $ 44,811 |

*Net cash flows provided by operating activities*

Net cash flows provided by operating activities in Q1 2024 were $1.6 million and consisted of the positive impact of cash generated from operating activities of $33.2 million offset by $31.5 million of cash used as a result of an increase in working capital. The increase in working capital in Q1 2024 was driven by higher trade and other receivables and prepaid expenses and deposits, and lower trade and other payables and deferred revenues which were partially offset by lower inventories.

Net cash flows provided by operating activities in Q1 2023 were $4.8 million and consisted of the positive impact of cash generated from operating activities of $36.7 million offset by $32.0 million of cash used as a result of an increase in working capital. The increase in working capital in Q1 2023 was primarily driven by higher trade and other receivables and prepaid expenses and deposits, and lower trade and other payables and deferred revenues which were partially offset by lower inventories.

*Net cash flows used by investing activities*

Net cash flows used by investing activities in Q1 2024 were $2.9 million and consisted primarily of investments in capital expenditure related to enhancements on the Company's digital transformation projects, leasehold improvements, computer hardware and furniture and equipment.

Net cash flows used by investing activities in Q1 2023 were $48.8 million and consisted primarily of $24.1 million used in the acquisition of Silk & Snow, $20.1 million used in the funding of the convertible note and acquisition of a warrant, as well as capital expenditure related to enhancements on the Company's ERP system and eCommerce platforms, leasehold improvements, computer hardware and furniture and equipment.

Net *cash flows provided/used by financing activities*

Net cash flows used by financing activities in Q1 2024 were $5.0 million and consisted of the repayment of the principal on lease obligations of $9.5 million, dividends paid on the common shares of $7.9 million, interest payments of $7.1 million on lease liabilities and the senior secured credit facility. These cash outflows were partially offset by an additional draw on the senior secured credit facility of $15.4 million and proceeds received from common shares issued due to exercised stock options of $4.1 million.

Net cash flows provided by financing activities in Q1 2023 were $10.5 million and consisted primarily of an additional draw on the senior secured credit facility of $39.5 million and $0.1 million proceeds received from common shares issued due to exercised stock options. These cash inflows were partially offset by dividends paid on the common shares of $7.5 million, the repurchase for cancellation of the Company's common shares under the NCIB of $7.3 million, the repayment of the principal on lease obligations of $9.7 million, and interest payments of $4.7 million on lease liabilities and the senior secured credit facility.

*Contractual obligations*

There were no material changes to the Company's contractual obligations reported in the Company's Management Discussion and Analysis for the year ended December 31, 2023 ("**2023 Annual MD&A**"), a copy of which can be accessed under the Company's profile on SEDAR+.

<u>Capital Resources</u>

*Senior secured credit facility*

The Company has a senior secured credit facility of $260.0 million with an additional $100.0 million available on its accordion, which is scheduled to mature on October 22, 2026. Under the terms of the senior secured credit facility, the Company must comply with certain financial and non-financial covenants. The Company is in compliance with all covenants as at March 31, 2024.

The senior secured credit facility is secured by the present and after acquired personal property of the Company. As at March 31, 2024, the balance outstanding on the senior secured credit facility was $176.7 million (December 31, 2023 – $161.3 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $0.6 million (December 31, 2023 – $0.7 million).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. As at March 31, 2024, the Company held the debt in Canadian dollars.

Interest on the senior secured credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. The Company entered into a fixed interest rate swap, effective April 1, 2021 to April 1, 2024, for the notional amount of $60.0 million whereby the Company pays a fixed rate of 1.072% and receives interest at a variable rate equal to the Canadian Dollar Offered Rate for 3-month bankers' acceptances ("**3-month CDOR**") on the notional amount. The swap is being used to manage the volatility of interest rates on the outstanding balance on its senior secured credit facility.

*Off-balance sheet arrangements*

The Company did not have any material off-balance sheet arrangements as at March 31, 2024 and March 31, 2023, nor did it have any subsequent to March 31, 2024.

*Related party transactions*

There were no material changes to the Company's related party transactions reported in the 2023 Annual MD&A.

## 10. Risk Factors

The Company’s activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk, capital risk and technology risk. The Company’s overall risk management program and business practices seek to minimize any potential adverse effects on its financial performance.

Risk management is carried out by the senior management team and is reviewed by the Board.

For an understanding of other potential risks, including, non-financial risks, see the section entitled “Risk Factors” in the AIF.

<u>Market Risk</u>

Market risk is the loss that may arise from changes in factors such as interest rates, foreign exchange rates and the impact these factors may have on other counter-parties.

<u>Foreign Exchange Risk</u>

The Company’s operating results are reported in Canadian dollars. A portion of the Company’s sales and purchases are denominated in U.S. dollars which results in foreign currency exposure related to fluctuations between the Canadian and U.S. dollars. The Company does not currently use foreign exchange options or forward contracts to hedge its foreign currency risk relating to sales and purchases. A sudden increase in the U.S. dollar relative to the Canadian dollar could result in higher costs to the Company, which could in turn result in increased prices and reduced sales, decreased profit margins and could negatively impact the Company’s business and financial results.

<u>Cash Flow and Fair Value Interest Risk</u>

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company’s primary interest rate risk arises from long-term debt. It manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and varying lengths of terms to achieve the desired proportion of variable and fixed rate debt. Additionally, the Company holds a fixed rate swap effective until April 1, 2024, for the notional amount of $60.0 million to manage its interest rate risk. An increase (or decrease) in interest rates by 1% would result in a $1.8 million increase (or decrease) of the annual interest expense of the credit facility. The Company has leases that carry interest at variable rates.

<u>Credit Risk</u>

Credit risk refers to the risk of losses due to the failure of the Company’s customers or other counter-parties to meet their payment obligations. Credit risk arises from deposits with banks, receivables with counter-parties as well as credit exposures from vendors for the payment of volume and co-operative advertising rebate amounts and balances owed from third-party financing companies under the various financing plans the Company offers its customers. In order to manage the Company's credit risk the Company closely monitors its financial assets and holds its deposits at highly rated financial institutions. Sales to retail customers are settled in cash, financed by third-party financing companies or by using major credit cards.

The Company transfers the credit risk for financing plans to third-party financing companies. The third-party financing company that the Company deals with carries a minimum rating of BBB or better.

There are no significant impaired receivables that have not been provided for in the allowance. There are no significant amounts considered past due or impaired.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet a demand for cash or fund its obligations as they come due. It also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate number of committed credit facilities.

Capital Risk

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its common shareholders in the form of cash dividends, benefits to other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares, purchase its own shares or sell assets to reduce long-term debt.

Technology and Cyber Security Risk

The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the Company which includes ongoing enhancements on the Company’s ERP system and eCommerce platforms. Failure to successfully migrate from legacy systems to the new systems or a significant disruption in the Company’s current IT systems during the implementation of the new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives causing significant disruptions to the business and potential financial losses.

In addition, in the normal course of its business, the Company collects, uses, discloses and retains sensitive and confidential customer and employee information. Although the Company has security measures in place, the Company's facilities and systems and those of its third-party service providers may be vulnerable to security breaches, hacking, computer viruses, misplaced or lost data, programming and/or human errors and other similar events. Any security or data privacy incident, including one involving the misappropriation, loss or other unauthorized use or disclosure of confidential or personal information, whether by the Company or its vendors, could damage the Company's reputation and its relationships with its customers, expose the Company to risks of litigation and liability and may have a material adverse effect on the Company's business.

## 11. Critical Accounting Estimates and Judgments

A summary of significant accounting policies is included in Note 3 of the Company’s 2023 audited annual consolidated financial statements. The Company’s critical accounting estimates are included in Note 4 of the Company’s 2023 audited annual consolidated financial statements and are described below.

Critical accounting estimates require management to make certain judgements and estimates, which may differ from actual results. Accounting estimates are based on historical experience and other factors that management believes to be reasonable under the time frame and circumstances. Changes in management’s accounting estimates can have a material impact on the financial results of the Company.

The unaudited interim condensed consolidated financial statements of the Company for Q1 2024 have been prepared using critical accounting estimates consistent with those in Note 4 of the Company's 2023 audited annual consolidated financial statements.

## 12. Financial Instruments

As at March 31, 2024, the financial instruments consisted of cash, trade and other receivables, convertible note receivable, warrant, trade and other payables, deferred revenues, long-term debt under the Company's senior secured credit facility, interest rate swap, redemption liabilities, contingent consideration liability and the share repurchase commitment under ASPP.

- The carrying values of cash, trade and other receivables, trade and other payables, deferred revenues and the share repurchase commitment under ASPP approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the long-term debt under the Company's senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at March 31, 2024 and December 31, 2023.
- The interest rate swap obtained effective April 1, 2021 is recognized at fair value based on observable quoted market prices for identical financial instruments in active markets as at March 31, 2024 and December 31, 2023.
- The convertible note receivable is recognized at fair value measured using the Black-Scholes pricing model and the Crank-Nicolson finite difference method.
- The warrant is recognized at fair value measured using the Binomial option pricing model.
- The redemption liabilities related to the acquisition of Hush were initially recognized at fair value measured at the expected outcome (discounted) determined based on an earnings formula and the expected earnings levels over the measurement period and subsequently measured at amortized cost.
- The contingent consideration liability related to the acquisition of Silk & Snow was initially recognized at fair value measured at the expected outcome (discounted) determined based on an upon an earnings formula and the expected achievement levels against certain growth and profitability targets in aggregate over the contingency period and subsequently measured at amortized cost.

The Company’s financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk, which are discussed above under the section “Risk Factors”.

## 13. Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining appropriate internal controls over financial reporting (“**ICFR**”). ICFR is designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements in accordance with IFRS. In designing ICFR, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and cannot provide absolute assurance with respect to the prevention or detection of misstatements. Additionally, management is required to use judgment in evaluating ICFR.

Management is also responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiary is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's ICFR includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS Accounting Standards, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A "material weakness" in ICFR is a deficiency, or a combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected in a timely basis by the organization's internal controls.

The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at March 31, 2024 using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – Certification of Disclosure on Issuers' Annual and Interim Filings, are appropriately designed and were operating effectively as at March 31, 2024 and that no material weaknesses were identified through their evaluation.

In accordance with the provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, Management, including the CEO and Chief Financial Officer ("**CFO**"), have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of Casper Canada.

The Company acquired the business of Casper Canada on April 14, 2023. Casper Canada's financial results are included in the Company's unaudited interim condensed consolidated financial statements for or the quarter ended March 31, 2024. For the Consolidated Statement of Financial Position, Casper Canada constitutes 4.1% of total current assets, 4.1% of total assets, 1.7% of total current liabilities and 1.0% of total liabilities as at March 31, 2024.

The scope limitation is primarily based on the time required to assess Casper Canada's disclosure controls and procedures and internal control over financial reporting in a manner consistent with the Company's other operations.

## 14. Current and Future Accounting Standards

The unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2023. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2024, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Company.

## 15. Outstanding Share Data

As of the date hereof, 33,888,779 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,057,507 stock options to purchase an equivalent number of common shares, 242,558 performance share units, 325,078 restricted share units and 95,384 deferred share units are issued and outstanding. For further details concerning the rights, privileges and restrictions attached to the common shares and the Class A common shares, please refer to the section entitled "Capital Structure" in the AIF.

## 16. Non-IFRS and Other Measures

The Company prepares its consolidated financial statements in accordance with IFRS Accounting Standards. In order to provide additional insight into the business, to provide investors with supplemental measures of its operating performance and to highlight trends in its business that may not otherwise be apparent when relying solely on IFRS financial measures, the Company has also provided in this MD&A certain supplementary financial measures, such as SSS, non-IFRS measures such as EBITDA, Operating EBITDA, Adjusted net income, Basic adjusted EPS, Diluted adjusted EPS, and non-IFRS ratios including Operating EBITDA margin each as defined below. These measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Management also uses these measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. The Company also believes that securities analysts, investors and other interested parties frequently use these measures in the evaluation of issuers.

Readers are cautioned that these measures are not recognized under IFRS Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards. They are therefore unlikely to be comparable to similarly titled measures presented by other publicly traded companies. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS Accounting Standards. See below for further details concerning how the Company calculates these measures and for reconciliations to the most comparable IFRS measures.

Same Store Sales (SSS)

SSS is a supplementary financial measure used in the retail industry to compare sales derived from established stores over a certain period compared to the same period in the prior year. The Company has embarked on an omnichannel approach to engaging with customers. This approach allows customers to shop online for home delivery or purchase in any store locations. Due to the customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and eCommerce channels. This measure does not include sales from the Company's Express Stores. SSS helps to explain what portion of revenue growth can be attributed to growth in established stores and eCommerce sales.

The Company calculates SSS as the percentage increase or decrease in sales from stores and eCommerce platforms opened and operated for at least 12 complete months relative to the same period in the prior year.

EBITDA, Operating EBITDA, and Operating EBITDA margin

EBITDA and Operating EBITDA are used by the Company to assess its operating performance.

EBITDA is defined as net income attributable to the Company adjusted for:

- non-controlling interests;
- other expenses (income);
- finance related expenses (income);
- income taxes; and
- depreciation and amortization.

Operating EBITDA is defined as EBITDA adjusted for:

- acquisition costs;
- ERP implementation costs; and
- share-based compensation.

Operating EBITDA margin is defined as Operating EBITDA divided by Revenues.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company is used by the Company to assess its operating performance. Adjusted net income attributable to the Company is defined as net income attributable to the Company adjusted for:

- acquisition costs;
- ERP implementation costs;
- share-based compensation; and
- accretion on the redemption liabilities related to the Hush acquisition and accretion on the contingent consideration liability related to the Silk & Snow acquisition.

Basic adjusted earnings per share (Basic adjusted EPS)

Basic adjusted EPS is defined as adjusted net income attributable to the Company divided by weighted average number of shares issued and outstanding during the period.

Diluted adjusted earnings per share (Diluted adjusted EPS)

Diluted adjusted EPS is defined as adjusted net income attributable to the Company divided by weighted average number of shares issued and outstanding during the period adjusted for the effects of dilutive stock options, performance share units, restricted share units and deferred share units.

**Calculation of Non-IFRS and Other Measures**

| *(C$ thousands unless otherwise stated, except EPS)* | **Q1 2024** | Q1 2023 |
|---|---|---|
| **Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:** | | |
| Net income attributable to the Company | **$ 8,735** | $ 11,330 |
| Add impact of the following: | | |
| Non-controlling interests | **204** | (37) |
| Other expenses (income) | **(568)** | 540 |
| Finance related expenses | **8,324** | 6,469 |
| Income taxes | **3,436** | 4,368 |
| Depreciation and amortization | **17,698** | 16,998 |
| **EBITDA** | **37,829** | 39,668 |
| Adjustments: | | |
| Acquisition costs[(1)] | **-** | 559 |
| Share-based compensation[(2)] | **559** | 1,133 |
| Total adjustments | **$ 559** | $ 1,692 |
| **Operating EBITDA** | **$ 38,388** | $ 41,360 |
| **Operating EBITDA margin (%)** | **18.3%** | 20.0% |
| **Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:** | | |
| Net income attributable to the Company | **$ 8,735** | $ 11,330 |
| Adjustments: | | |
| Acquisition costs[(1)] | - | 559 |
| Share-based compensation[(2)] | **559** | 1,133 |
| Accretion expense[(3)] | **367** | 596 |
| Tax impact of all adjustments[(4)] | **(104)** | (370) |
| Total adjustments | **$ 822** | $ 1,918 |
| **Adjusted net income attributable to the Company** | **$ 9,557** | $ 13,248 |
| **Weighted average number of shares – Basic** | **33,605** | 34,787 |
| **Weighted average number of shares – Diluted** | **34,042** | 35,584 |
| **Basic EPS** | **$ 0.26** | $ 0.33 |
| **Diluted EPS** | **$ 0.26** | $ 0.32 |
| **Basic adjusted EPS** | **$ 0.28** | $ 0.38 |
| **Diluted adjusted EPS** | **$ 0.28** | $ 0.37 |

Notes:

(1) Adjustment for professional fees incurred in relation to acquisition activities.

(2) Adjustment for share-based compensation.

(3) Adjustment for accretion of the redemption liabilities related to the Hush acquisition and the contingent consideration liability related to the Silk & Snow acquisition.

(4) The related tax effects are calculated at the Company's average statutory tax rate.

## 17. Additional Information

Additional information relating to the Company, including the Company's AIF, quarterly and annual reports and supplementary information is available on SEDAR+ at www.sedarplus.ca. Press releases and other information are also available at the Company's investor relations website at www.ir.sleepcountry.ca.