Sleep Country Canada Holdings Inc.

Management's Discussion and Analysis

December 31, 2023

Table of Contents

1. Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of March 6, 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 fourth quarter and year ended December 31, 2023 and it should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes for the years ended December 31, 2023 and December 31, 2022 and the related MD&A.

Basis of Preparation

All references in this MD&A to "**Q4 2023**" are to the Company's quarter ended December 31, 2023, "**Q4 2022**" are to the Company's quarter ended December 31, 2022 and "**Q4 2021**" are to the Company's quarter ended December 31, 2021. All references in the MD&A to "**2023**" are to the Company's year ended December 31, 2023, "**2022**" are to the Company's year ended December 31, 2022, and "**2021**" are to the Company's year ended December 31, 2021.

The Company's audited consolidated financial statements for the years ended December 31, 2023 and December 31, 2022 and the accompanying notes have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS® Accounting Standards**"), using the accounting policies described therein.

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 audited consolidated financial statements of the Company and the accompanying notes for year ended December 31, 2023 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 March 6, 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 Canadians' 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 December 31, 2023, the Company had 19 pilot Express Stores (December 31, 2022 – 17 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 an 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.

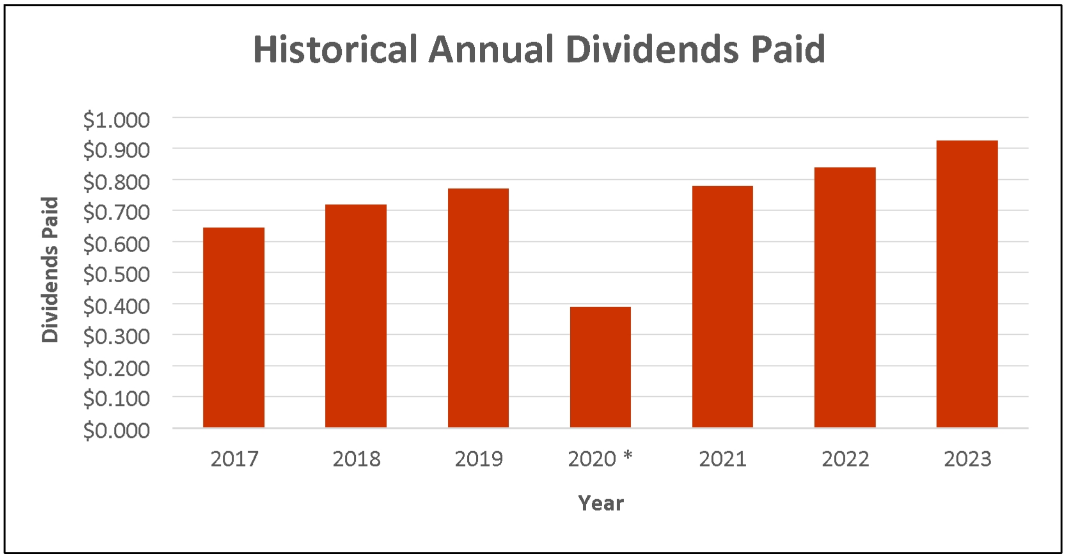
In April 2023, the Company acquired the Canadian operations of Casper Sleep Inc., including six retail stores. The Casper brand is one of the most recognized sleep brands in the world. Its product offering includes a wide range of sleep products including mattresses, bed frames, pillows, bedding and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

Dividends

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)
February 9, 2021	February 18, 2021	February 26, 2021	$ 0.195
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

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

On February 5, 2024, the Company declared a dividend of $0.237 per common share, which was paid on February 29, 2024 to holders of the common shares of record as at the close of business on February 21, 2024.

Share Repurchases

On March 7, 2022, the Company received approval from the Toronto Stock Exchange ("**TSX**") to commence a normal course issuer bid ("**NCIB**"). Pursuant to an amendment to the NCIB on November 29, 2022, the Company was permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time until the completion of the NCIB, if considered advisable, up to a maximum of 3,155,250 of the Company's common shares, representing approximately 10.0% of the public float as of February 28, 2022. Purchases under this NCIB concluded on March 8, 2023.

On March 9, 2023, the Company received approval from the TSX on 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 2,675,550 of the Company's common shares, representing approximately 10.0% of its public float of 26,755,502 as of February 28, 2023. Purchases will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2024. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,782 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), 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. As at December 31, 2023, an estimated maximum obligation of $20,009 (2022 - $20,660) was outstanding under the ASPP in other current liabilities.

In 2023, the Company purchased 1,596,910 common shares (2022 – 2,339,409) for cancellation at an average price of $23.38 (2022 – $24.67) for total consideration of $37.3 million (2022 – $57.7 million).

The Company plans on filing a notice of intention with the TSX to commence a new NCIB when the current NCIB expires on March 8, 2024. If this notice is accepted by the TSX, the Company expects to be permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time over the 12 months following such acceptance, if considered advisable, up to a maximum amount of the Company's common shares, that represents 10% of the public float as at February 29, 2024.

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, night stands, bath linens, sleep and lounge wear, delivery fees and warranties.

Revenue is recognized when the performance obligation is deemed to be fulfilled and the control of the products has 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.

<u>Product Expansion Opportunities</u>

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, as well as sleep and lounge wear.

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; and
- Malouf, a U.S. industry leader in innovative bedding and furniture products.

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.

<u>Online Expansion Opportunities</u>

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 retails 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 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 December 31, 2023, 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 years ended December 31, 2023 and December 31, 2022:

					2023
	Number of stores, beginning of year	Stores newly opened	Stores closed	**Number of stores, end of year**	Stores renovated
Sleep Country[1]	227	3	1	**229**	2
Dormez-vous[1]	62	2	1	**63**	-
Casper[2]	-	6	-	**6**	-
Endy	-	1	-	**1**	-
Sleep Country/Silk & Snow[3]	-	1	-	**1**	-
the rest	-	1	-	**1**	-
Total	289	14	2	**301**	2

					2022
	Number of stores, beginning of year	Stores newly opened	Stores closed	**Number of stores, end of year**	Stores renovated
Sleep Country[1]	224	4	1	**227**	-
Dormez-vous[1]	61	1	-	**62**	-
Casper	-	-	-	**-**	-
Endy	-	-	-	**-**	-
Sleep Country/Silk & Snow	-	-	-	**-**	-
the rest	-	-	-	**-**	-
Total	285	5	1	**289**	-

Notes:

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

(2) Includes the six Casper stores acquired as part of the acquisition of the Canadian assets from Casper Sleep Inc. in April 2023;

(3) In Q4 2023, the Company opened a store-within-a-store between two of its banners; Sleep Country and Silk & Snow.

Store Design

The Company continuously evaluates its store design to provide customers with the optimal shopping experience. As at December 31, 2023, there are 249 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 89 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 Sleep Country, Dormez-vous and Casper 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. Fourth Quarter and Annual Highlights

(C$ thousands unless otherwise stated; other than store count and EPS)	Q4 **2023**	Q4 2022	Q4 Change	Annual **2023**	Annual 2022	Annual Change
Revenues	**$ 255,602**	$ 243,028	5.2%	**$ 935,044**	$ 928,657	0.7%
SSS (%)[1]	**(3.2%)**	(11.5%)		**(6.4%)**	(1.8%)	
Stores opened[2]	**5**	2		**14**	5	
Stores closed[2]	**-**	-		**2**	1	
Stores renovated[2]	**2**	-		**2**	-	
Gross profit margin (%)	**37.7%**	37.5%		**37.2%**	36.7%	
Operating EBITDA[1]	**$ 51,356**	$ 53,005	(3.1%)	**$ 196,758**	$ 218,559	(10.0%)
Operating EBITDA margin (%)[1]	**20.1%**	21.8%		**21.0%**	23.5%	
Net income	**$ 22,825**	$ 40,783	(44.0%)	**$ 71,535**	$ 110,696	(35.4%)
Net income attributable to the Company	**$ 22,471**	$ 40,469	(44.5%)	**$ 71,192**	$ 110,471	(35.6%)
Adjusted net income attributable to the Company[1]	**$ 19,308**	$ 23,874	(19.1%)	**$ 74,143**	$ 102,868	(27.9%)
Basic EPS	**$ 0.66**	$ 1.14	(42.1%)	**$ 2.06**	$ 3.04	(32.2%)
Diluted EPS	**$ 0.65**	$ 1.13	(42.5%)	**$ 2.04**	$ 3.01	(32.2%)
Basic adjusted EPS[1]	**$ 0.57**	$ 0.67	(14.9%)	**$ 2.14**	$ 2.83	(24.4%)
Diluted adjusted EPS[1]	**$ 0.56**	$ 0.67	(16.4%)	**$ 2.12**	$ 2.81	(24.6%)

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 stores opened, closed and renovated.

Highlights of Results in Q4 2023

Q4 2023 compared to Q4 2022 - See "Non-IFRS and Other Measures".

- 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 by 3.2%;
- Revenues attributed to eCommerce increased by 530 basis points from 21.1% in Q4 2022 to 26.4% in Q4 2023;
- Gross profit increased by $5.2 million or 5.7% from $91.1 million in Q4 2022 to $96.3 million in Q4 2023;
- Gross profit margin increased by 20 basis points from 37.5% in Q4 2022 to 37.7% in Q4 2023;
- Operating EBITDA decreased by $1.6 million or 3.1% from $53.0 million in Q4 2022 to $51.4 million in Q4 2023 mainly due to higher advertising, credit card and financing charges, telecommunication and information technology and other expenses that were also impacted by incremental spend due to the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin and lower compensation costs;
- Operating EBITDA margin decreased by 170 basis points from 21.8% in Q4 2022 to 20.1% in Q4 2023;
- Net income attributable to the Company decreased by $18.0 million or 44.5% from $40.5 million in Q4 2022 to $22.5 million in Q4 2023 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 $4.6 million or 19.1% from $23.9 million in Q4 2022 to $19.3 million in Q4 2023;
- Diluted EPS decreased by $0.48 or 42.5% from $1.13 in Q4 2022 to $0.65 in Q4 2023; and
- Diluted adjusted EPS decreased by $0.11 or 16.4% from $0.67 in Q4 2022 to $0.56 in Q4 2023.

Highlights of Results in 2023

2023 compared to 2022 - See “Non-IFRS and Other Measures”.

- Revenues increased by $6.3 million or 0.7% from $928.7 million in 2022 to $935.0 million in 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada, which was partially offset by a decrease in SSS by 6.4%;
- Revenues attributed to eCommerce increased by 310 basis points from 19.6% in 2022 to 22.7% in 2023;
- Gross profit increased by $6.5 million or 1.9% from $341.0 million in 2022 to $347.5 million in 2023;
- Gross profit margin increased by 50 basis points from 36.7% in 2022 to 37.2% in 2023;
- Operating EBITDA decreased by $21.8 million or 10.0% from $218.6 million in 2022 to $196.8 million in 2023 mainly due to higher advertising, compensation, credit card and financing charges, occupancy, telecommunication and information technology and other costs that were also impacted by the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin;
- Operating EBITDA margin decreased by 250 basis points from 23.5% in 2022 to 21.0% in 2023;
- Net income attributable to the Company decreased by $39.3 million or 35.6% from $110.5 million in 2022 to $71.2 million in 2023 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 $28.8 million or 27.9% from $102.9 million in 2022 to $74.1 million in 2023;
- Diluted EPS decreased by $0.97 or 32.2% from $3.01 in 2022 to $2.04 in 2023; and
- Diluted adjusted EPS decreased by $0.69 or 24.6% from $2.81 in 2022 to $2.12 in 2023.

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 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;
- continue to focus on strategic initiatives to leverage strengths across the Company's banners to drive efficiencies on a consolidated basis; and
- plan on filing a notice of intention with the TSX to commence a new NCIB to repurchase common shares, at the Company's discretion, for up to 10% of the public float.

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 audited consolidated financial statements for the years ended December 31, 2023 and December 31, 2022.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2023**	2022	Change	**2023**	2022	Change
Consolidated Income Statement						
Revenues	**$ 255,602**	$ 243,028	5.2%	**$ 935,044**	$ 928,657	0.7%
Cost of sales	**159,335**	151,953	4.9%	**587,570**	587,629	0.0%
Gross profit	**96,267**	91,075	5.7%	**347,474**	341,028	1.9%
General and administrative expenses	**64,293**	57,540	11.7%	**227,883**	196,167	16.2%
Operating income	**31,974**	33,535	(4.7%)	**119,591**	144,861	(17.4%)
Finance related expenses (income)	**2,416**	(15,533)	(115.6%)	**23,471**	(889)	(2740.2%)
Other expenses (income)	**(127)**	65	(295.4%)	**(550)**	(292)	88.4%
Net income before income taxes	**29,685**	49,003	(39.4%)	**96,670**	146,042	(33.8%)
Income taxes	**6,860**	8,220	(16.5%)	**25,135**	35,346	(28.8%)
Net income	**$ 22,825**	$ 40,783	(44.0%)	**$ 71,535**	$ 110,696	(35.4%)
Net income attributable to the Company	**$ 22,471**	$ 40,469	(44.5%)	**$ 71,192**	$ 110,471	(35.6%)
EBITDA(1)	**$ 50,218**	$ 50,711	(1.0%)	**$ 189,206**	$ 210,494	(10.1%)
Operating EBITDA(1)	**$ 51,356**	$ 53,005	(3.1%)	**$ 196,758**	$ 218,559	(10.0%)
Operating EBITDA margin (%)(1)	**20.1%**	21.8%		**21.0%**	23.5%	
Adjusted net income attributable to the Company(1)	**$ 19,308**	$ 23,874	(19.1%)	**$ 74,143**	$ 102,868	(27.9%)
Basic EPS	**$ 0.66**	$ 1.14	(42.1%)	**$ 2.06**	$ 3.04	(32.2%)
Diluted EPS	**$ 0.65**	$ 1.13	(42.5%)	**$ 2.04**	$ 3.01	(32.2%)
Basic adjusted EPS(1)	**$ 0.57**	$ 0.67	(14.9%)	**$ 2.14**	$ 2.83	(24.4%)
Diluted adjusted EPS(1)	**$ 0.56**	$ 0.67	(16.4%)	**$ 2.12**	$ 2.81	(24.6%)
Dividends declared per share	**$ 0.237**	$ 0.215	10.2%	**$ 0.926**	$ 0.840	10.2%

	31-Dec-23	**31-Dec-22**
Total assets	**$1,112,474**	**$1,021,719**
Total long-term lease liabilities and debt	**$ 449,292**	**$ 374,252**

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 audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2022**	2021	Change[2]	**2022**	2021	Change[2]
Consolidated Income Statement						
Revenues	**$ 243,028**	$ 271,158	(10.4%)	**$ 928,657**	$ 920,194	0.9%
Cost of sales	**151,953**	173,438	(12.4%)	**587,629**	603,146	(2.6)%
Gross profit	**91,075**	97,720	(6.8%)	**341,028**	317,048	7.6%
General and administrative expenses	**57,540**	56,263	2.3%	**196,167**	178,225	10.1%
Operating income	**33,535**	41,457	(19.1%)	**144,861**	138,823	4.3%
Finance related expenses (income)	**(15,533)**	4,259	(464.7%)	**(889)**	16,837	(105.3%)
Other expenses (income)	**65**	(51)	(227.5%)	**(292)**	142	(305.6%)
Net income before income taxes	**49,003**	37,249	31.6%	**146,042**	121,844	19.9%
Income taxes	**8,220**	10,437	(21.2%)	**35,346**	32,862	7.6%
Net income	**$ 40,783**	$ 26,812	52.1%	**$ 110,696**	$ 88,982	24.4%
Net income attributable to the Company	**$ 40,469**	$ 26,433	53.1%	**$ 110,471**	$ 88,603	24.7%
EBITDA[1]	**$ 50,711**	$ 57,314	(11.5%)	**$ 210,494**	$ 199,549	5.5%
Operating EBITDA[1]	**$ 53,005**	$ 62,065	(14.6%)	**$ 218,559**	$ 210,889	3.6%
Operating EBITDA margin (%)[1]	**21.8%**	22.9%		**23.5%**	22.9%	
Adjusted net income attributable to the Company[1]	**$ 23,874**	$ 30,977	(22.9%)	**$ 102,868**	$ 98,342	4.6%
Basic EPS	**$ 1.14**	$ 0.72	58.3%	**$ 3.04**	$ 2.41	26.1%
Diluted EPS	**$ 1.13**	$ 0.71	59.2%	**$ 3.01**	$ 2.38	26.5%
Basic adjusted EPS[1]	**$ 0.67**	$ 0.84	(20.2%)	**$ 2.83**	$ 2.67	6.0%
Diluted adjusted EPS[1]	**$ 0.67**	$ 0.83	(19.3%)	**$ 2.81**	$ 2.64	6.4%
Dividends declared per share	**$ 0.215**	$ 0.195	10.3%	**$ 0.840**	$ 0.780	7.7%
	31-Dec-22			**31-Dec-21**		
Total assets	**$1,021,719**			**$ 988,035**		
Total long-term lease liabilities and debt	**$ 374,252**			**$ 346,233**		

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 Q4 2022 MD&A for discussion related to performance analysis.

6. Fourth Quarter 2023 versus Fourth Quarter 2022

Revenues

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 by 3.2% (See “Non-IFRS and Other Measures”).

Revenues attributed to eCommerce increased by 530 basis points from 21.1% in Q4 2022 to 26.4% in Q4 2023.

The increase in Revenues by $12.6 million was comprised of a $9.3 million increase in mattresses revenues and a $3.3 million increase in accessories revenues in Q4 2023 versus Q4 2022.

				Q4
(C$ millions unless otherwise stated)	**2023**	2022	Change	Change (%)
Mattresses	**$ 189.9**	$ 180.6	$ 9.3	5.1%
Accessories	**$ 65.7**	$ 62.4	$ 3.3	5.3%
Total	**$ 255.6**	$ 243.0	$ 12.6	5.2%

Gross profit

Gross profit increased by $5.2 million from $91.1 million in Q4 2022 to $96.3 million in Q4 2023. Gross profit margin increased by 20 basis points from 37.5% in Q4 2022 to 37.7% in Q4 2023. The increase in gross profit margin in Q4 2023 versus Q4 2022 was mainly a result of the following:

- inventory and other directly related expenses decreased, as percentage of Revenues, by 0.2% from 41.7% in Q4 2022 to 41.5% in Q4 2023 primarily due to higher AUSP and lower product and transportation costs, partially offset by higher inventory allowances and higher delivery costs mainly driven by growth in eCommerce Revenues;

- store occupancy costs decreased, as a percentage of Revenues, by 0.1% from 2.9% in Q4 2022 to 2.8% in Q4 2023 due to the Company leveraging its occupancy costs;

- other expenses decreased, as a percentage of Revenues, by 0.1% from 0.7% in Q4 2022 to 0.6% in Q4 2023 due to an decrease in supplies expense; and

- sales and distribution compensation expenses increased, as a percentage of Revenues, by 0.3% from 12.5% in Q4 2022 to 12.8% in Q4 2023 due to increases in salaries, wages and sales incentives under the normal course of business.

General and administrative (“**G&A**”) expenses

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, and, as a percentage of Revenues, G&A expenses increased from 23.7% of Revenues in Q4 2022 to 25.2% of Revenues in Q4 2023.

					Q4
(C$ millions unless otherwise stated)	**2023**	**% of Revenues**	2022	% of Revenues	Change
Media and advertising expenses[(1)]	**$ 28.2**	**11.0%**	$ 23.7	9.8%	$ 4.5
Salaries, wages and benefits[(2)]	**10.6**	**4.2%**	12.4	5.1%	(1.8)
Credit card and finance charges[(3)]	**6.4**	**2.5%**	5.6	2.3%	0.8
Occupancy charges	**2.8**	**1.1%**	2.5	1.0%	0.3
Professional fees[(4)]	**2.4**	**1.0%**	3.1	1.3%	(0.7)
Telecommunication and information technology[(5)]	**4.1**	**1.6%**	3.0	1.2%	1.1
Mattresses recycling and donations	**1.0**	**0.4%**	0.1	0.0%	0.9
Depreciation and amortization	**6.2**	**2.4%**	5.8	2.4%	0.4
Other[(6)]	**2.6**	**1.0%**	1.3	0.6%	1.3
Total G&A expenses	**$ 64.3**	**25.2%**	$ 57.5	23.7%	$ 6.8

Notes:

(1) Media and advertising expenses increased by $4.5 million due to an increase in online advertising impacted by the incremental spend by Silk & Snow and Casper Canada acquired in 2023, as well as, increases in television advertising costs and production costs. These increases were partially offset by decreases in radio, newspaper and billboard advertising costs and advertising fees.

(2) Salaries, wages and benefits decreased by $1.8 million mainly due to a decrease in bonus expenses, partially offset by an increase in compensation expenses incurred in the regular course of business and incremental headcount from the acquisitions of Silk & Snow and Casper Canada.

(3) Credit card and finance charges are variable costs and these costs increased as a percentage of Revenues by 0.2% mainly due to increased financing rates and incremental fees incurred by Silk & Snow and Casper Canada.

(4) Professional fees decreased by $0.7 million mainly due to $0.4 million in legal fees incurred in Q4 2022 related to the acquisition of Silk & Snow that closed on January 4, 2023.

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

(6) Other expenses increased by $1.3 million due to higher administrative, supplies, travel, meals and entertainment expenses in addition to the return of company events from the pre-pandemic period.

EBITDA

EBITDA decreased by $0.5 million or 1.0% from $50.7 million in Q4 2022 to $50.2 million in Q4 2023. The decrease was mainly due to higher advertising, credit card and financing charges, telecommunication and information technology and other expenses that were impacted by incremental spend due to the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin and lower compensation costs. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA 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 the decrease in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses (income)

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.

Income taxes

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 was partially offset by the increase in effective tax rate and resulted in a decrease to income taxes of $1.3 million in Q4 2023 versus Q4 2022.

Net income attributable to the Company

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

Adjusted net income attributable to the Company 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. See “Non-IFRS and Other Measures”.

7. Annual Financial Results 2023 versus 2022

Revenues increased by $6.3 million or 0.7% from $928.7 million in 2022 to $935.0 million in 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 by 6.4% (See "Non-IFRS and Other Measures").

Revenues attributed to eCommerce increased by 310 basis points from 19.6% in 2022 to 22.7% in 2023.

The increase in Revenues by $6.3 million was comprised of an increase in accessories revenues of $10.2 million partially offset by a decrease in mattresses revenues of $3.9 million in 2023 versus 2022.

				Annual
(C$ millions unless otherwise stated)	**2023**	2022	Change	Change (%)
Mattresses	**$ 704.2**	$ 708.1	$ (3.9)	(0.6%)
Accessories	**$ 230.8**	$ 220.6	$ 10.2	4.6%
Total	**$ 935.0**	$ 928.7	$ 6.3	0.7%

Gross profit

Gross profit increased by $6.5 million from $341.0 million in 2022 to $347.5 million in 2023. Gross profit margin increased by 50 basis points from 36.7% in 2022 to 37.2% in 2023. Gross profit margin was impacted in 2023 versus 2022 by the following:

- inventory and other directly related expenses decreased as a percentage of Revenues by 0.9% from 41.7% in 2022 to 40.8% in 2023 primarily due to higher AUSP and lower product costs, partially offset by higher inventory allowances and higher delivery costs mainly driven by growth in eCommerce Revenues;
- sales and distribution compensation expenses increased as a percentage of Revenues by 0.2% from 13.2% in 2022 to 13.4% in 2023 due to increases in salaries, wages and benefits under the normal course of business; and
- store occupancy costs increased as a percentage of Revenues by 0.2% from 2.9% in 2022 to 3.1% in 2023 due to the Company deleveraging its occupancy costs which were also impacted by the Company's 14 new stores of which six stores were part of the Casper Canada acquisition.

G&A expenses

Total G&A expenses increased by $31.7 million or 16.2% from $196.2 million in 2022 to $227.9 million in 2023, and, as a percentage of Revenues, G&A expenses increased from 21.1% of Revenues in 2022 to 24.4% of Revenues in 2023.

					Annual
(C$ millions unless otherwise stated)	**2023**	**% of Revenues**	2022	% of Revenues	Change
Media and advertising expenses[1]	**$ 87.1**	**9.3%**	$ 74.9	8.1%	$ 12.2
Salaries, wages and benefits[2]	**48.5**	**5.2%**	42.8	4.6%	5.7
Credit card and finance charges[3]	**22.4**	**2.4%**	19.9	2.1%	2.5
Occupancy charges	**10.9**	**1.2%**	9.6	1.0%	1.3
Professional fees	**10.8**	**1.1%**	10.0	1.1%	0.8
Telecommunication and information technology[4]	**14.6**	**1.6%**	11.5	1.2%	3.1
Mattresses recycling and donations	**3.7**	**0.4%**	2.9	0.3%	0.8
Depreciation and amortization[5]	**23.0**	**2.5%**	20.2	2.2%	2.8
Other[6]	**6.9**	**0.7%**	4.4	0.5%	2.5
Total G&A expenses	**$ 227.9**	**24.4%**	$ 196.2	21.1%	$ 31.7

Notes:

(1) Media and advertising expenses increased by $12.2 million due to an increase in online advertising mainly impacted by the incremental spend by Silk & Snow and Casper Canada acquired in 2023, as well as increases in television and billboard advertising, production and publicity costs. These increases were partially offset by decreases in newspaper and radio advertising costs and an increase in advertising credits.

(2) Salaries, wages and benefits increased by $5.7 million mainly due to an increase in compensation expenses incurred in the regular course of business, incremental headcount from the acquisitions of Silk & Snow and Casper Canada, and an increase in share-based compensation partially impacted by the over performance of the 2021 PSU plan. This increase was partially offset by a decrease in bonus expenses.

(3) Credit card and finance charges are variable costs and these costs increased as a percentage of Revenues by 0.3% mainly due to increased financing rates and incremental fees incurred by Silk & Snow and Casper Canada.

(4) Telecommunication and information technology expenses increased by $3.1 million mainly due to increases in software licensing fees and software support expenses.

(5) Depreciation expenses increased by $2.8 million mainly due to the increase in tangible and intangible depreciation.

(6) Other expenses increased by $2.5 million mainly due to increases in supplies, travel, meals and entertainment expenses in addition to the return of company events from the pre-pandemic period.

EBITDA

EBITDA decreased by $21.3 million from $210.5 million in 2022 to $189.2 million in 2023. The decrease was mainly due to higher advertising, compensation, credit card and financing charges, occupancy, telecommunication and information technology and other costs that were impacted by the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA 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 the decrease in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses (income)

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.

Income taxes

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 was partially offset by the increase in effective tax rate and resulted in a decrease to income taxes of $10.2 million in 2023 versus 2022.

Net Income attributable to the Company

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

Adjusted net income attributable to the Company 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. See “Non-IFRS and Other Measures”.

8. 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.

					2023					**2022**
(C$ thousands unless otherwise stated, except EPS)	Q4	Q3	Q2	Q1	**Annual**	Q4	Q3	Q2	Q1	**Annual**
Revenues	$ 255,602	$ 255,748	$ 217,199	$ 206,495	**$ 935,044**	$ 243,028	$ 251,026	$ 227,575	$ 207,028	**$ 928,657**
SSS (%)(1)	(3.2%)	(5.5%)	(10.9%)	(6.2%)	**(6.4%)**	(11.5%)	(11.1%)	15.1%	8.8%	**(1.8%)**
Gross profit	$ 96,267	$ 101,447	$ 78,970	$ 70,789	**$ 347,474**	$ 91,075	$ 96,623	$ 81,700	$ 71,633	**$ 341,028**
Gross profit margin (%)	37.7%	39.7%	36.4%	34.3%	**37.2%**	37.5%	38.5%	35.9%	34.6%	**36.7%**
EBITDA(1)	$ 50,218	$ 57,893	$ 41,428	$ 39,668	**$ 189,206**	$ 50,711	$ 63,683	$ 51,866	$ 44,239	**$ 210,494**
Operating EBITDA(1)	$ 51,356	$ 59,839	$ 44,204	$ 41,360	**$ 196,758**	$ 53,005	$ 65,603	$ 53,242	$ 46,714	**$ 218,559**
Operating EBITDA margin (%)(1)	20.1%	23.4%	20.4%	20.0%	**21.0%**	21.8%	26.1%	23.4%	22.6%	**23.5%**
Net income attributable to the Company	$ 22,471	$ 24,705	$ 12,685	$ 11,330	**$ 71,192**	$ 40,469	$ 28,926	$ 22,665	$ 18,413	**$ 110,471**
Adjusted net income attributable to the Company(1)	$ 19,308	$ 26,790	$ 14,796	$ 13,248	**$ 74,143**	$ 23,874	$ 32,457	$ 25,739	$ 20,800	**$ 102,868**
Basic EPS	$ 0.66	$ 0.71	$ 0.36	$ 0.32	**$ 2.06**	$ 1.14	$ 0.80	$ 0.61	$ 0.50	**$ 3.04**
Diluted EPS	$ 0.65	$ 0.70	$ 0.36	$ 0.32	**$ 2.04**	$ 1.13	$ 0.79	$ 0.61	$ 0.49	**$ 3.01**
Basic adjusted EPS(1)	$ 0.57	$ 0.77	$ 0.43	$ 0.38	**$ 2.14**	$ 0.67	$ 0.90	$ 0.70	$ 0.56	**$ 2.83**
Diluted adjusted EPS(1)	$ 0.56	$ 0.76	$ 0.42	$ 0.37	**$ 2.12**	$ 0.67	$ 0.89	$ 0.69	$ 0.56	**$ 2.81**

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.

9. 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.

10. Liquidity and Capital Resources

<u>Liquidity</u>

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 $37.4 million with an additional $98.7 million (not including the $100.0 million accordion) of liquidity available under the Company's credit facility as at December 31, 2023.

A summary of net cash flows by activities is presented below for 2023 and 2022:

		Annual
(C$ thousands unless otherwise stated)	**2023**	2022
Cash flows provided by operating activities	**$ 153,978**	$ 163,060
Cash flows used by investing activities	**(124,316)**	(18,224)
Cash flows used by financing activities	**(70,599)**	(103,044)
Effects of foreign currency exchange rate changes on cash	**(10)**	(20)
Net increase (decrease) in cash	**(40,947)**	41,772
Cash at beginning of the period	**78,318**	36,546
Cash at end of the period	**$ 37,371**	$ 78,318

Net cash flows provided by operating activities

Net cash flows provided by operating activities in 2023 were $154.0 million and consisted of the positive impact of cash generated from operating activities of $166.5 million offset by $12.6 million of cash used as a result of an increase in working capital. The increase in working capital in 2023 was primarily driven by higher trade and other receivables and prepaid expenses and deposits, and lower trade and other payables, which were partially offset by lower inventories and higher deferred revenues.

Net cash flows provided by operating activities in 2022 were $163.1 million and consisted of the positive impact of cash generated from operating activities of $181.2 million offset by $18.2 million of cash used as a result of an increase in working capital. The increase in working capital in 2022 was primarily driven by higher inventories and prepaid expenses and deposits, and lower deferred revenues and trade and other payables which were partially offset by lower trade and other receivables.

Net cash flows used by investing activities

Net cash flows used by investing activities in 2023 were $124.3 million and consisted primarily of $59.4 million used in the acquisitions of Silk & Snow and Casper Canada, $20.1 million invested in the convertible note receivable and warrant of Casper U.S., $1.3 million used to purchase an additional 16% share ownership from non-controlling shareholders of Hush Blankets Inc., with the remaining cash flows of $43.4 million used mainly on 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 used by investing activities in 2022 were $18.2 million and consisted primarily of investments in 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 used by financing activities*

Net cash flows used by financing activities in 2023 were $70.6 million and consisted of the repayment of the principal on lease obligations of $38.8 million, the repurchase for cancellation of the Company's common shares under the NCIB of $37.3 million, dividends paid on the common shares of $32.0 million, the repayment on the senior secured credit facility of $31.0 million and interest payments of $24.2 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 $92.3 million and proceeds received from common shares issued due to exercised stock options of $0.4 million.

Net cash flows used by financing activities in 2022 were $103.0 million and consisted primarily of the repurchase for cancellation of the Company's common shares under the NCIB of $57.7 million, the repayment of the principal on lease obligations of $38.7 million, dividends paid on the common shares of $30.4 million, the repayment to the senior secured credit facility of $21.0 million and interest payments of $15.9 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 $58.0 million and proceeds received from common shares issued due to exercised stock options of $2.8 million.

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2023 based on undiscounted cash flow (including interest where applicable) which may differ from the carrying values of the liabilities at the reporting date:

			2023
(C$ thousands unless otherwise stated)	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**
Trade and other payables	$ 110,966	$ -	$ -
Lease liabilities	56,281	198,692	233,834
Long-term debt[(1)]	12,506	183,913	-
Other liabilities[(2)]	23,136	5,492	-
	$ 202,889	$ 388,097	$ 233,834

Notes:

(1) Long-term debt represents the interest and principal amounts on the senior secured credit facility, which is scheduled to mature on October 22, 2026, with a balance outstanding at December 31, 2023 of $161.3 million.

(2) Other liabilities includes $20.0 million representing the estimated maximum obligation for shares to be repurchased under the ASPP, $2.1 million representing the contingent consideration liability related to the acquisition of Silk & Snow, and $6.6 million representing the redemption

liabilities to acquire the shares of non-controlling interests in Hush over the remaining two-year period.

<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, certain financial and non-financial covenants must be complied with. The Company is in compliance with all covenants as at December 31, 2023.

The senior secured credit facility is secured by the present and after acquired personal property of the Company. As at December 31, 2023, the balance outstanding on the senior secured credit facility was $161.3 million (December 31, 2022 – $100.0 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $0.7 million (December 31, 2022 – $0.9 million).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. As at December 31, 2023, 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 ending on 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 December 31, 2023 and December 31, 2022, nor did it have any subsequent to December 31, 2023.

11. Transactions with Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company incurred the following expenses in relation to key management personnel:

		Annual
(C$ thousands unless otherwise stated)	**2023**	2022
Salaries and short-term benefits	**$ 2,368**	$ 4,219
Share-based compensation	**3,129**	2,746
Directors' fees	**532**	549
	$ 6,029	$ 7,514

12. 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.

Market Risk

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.

Foreign Exchange Risk

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.

Cash Flow and Fair Value Interest Risk

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 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 $1.0 million increase (or decrease) of the annual interest expense of the credit facility. The Company has leases that carry interest at variable rates.

Credit Risk

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 organization. This includes the 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.

13. Critical Accounting Estimates and Judgments

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 judgments 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 may have a material impact on the financial results of the Company.

Impairment of goodwill and brands

The Company is required to use judgment in determining the appropriate groupings of CGUs, in order to determine the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. The determination of recoverable amount employs various estimates and requires judgment. The Company uses assumptions including revenue growth rates, terminal growth rates beyond the forecast period and discount rates when determining the recoverable amounts of CGUs. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows. As at reporting dates for the consolidated financial statements, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated. The Company has determined there had been no impairment as at the reporting dates of the consolidated financial statements.

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at fair value at their acquisition date. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the recognition and measurement of any identified intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings and impairment tests.

14. Financial Instruments

As at December 31, 2023, 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 December 31, 2023 and December 31, 2022.
- 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 December 31, 2023 and December 31, 2022.
- 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”.

15. 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 December 31, 2023 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 December 31, 2023 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 condensed interim consolidated financial statements for or the quarter ended December 31, 2023. For the Consolidated Statement of Financial Position, Casper Canada constitutes 4.6% of total current assets, 4.2% of total assets, 2.0% of total current liabilities and 1.2% of total liabilities as at December 31, 2023.

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.

16. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and the CFO (the "**Certifying Officers**") by others on a timely basis so that appropriate decisions can be made regarding public disclosure within the time periods required by applicable securities laws. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures.

The Company's system of disclosure controls and procedures includes, but is not limited to, the Company's Disclosure Policy, the Company's Codes of Business Conduct, the effective functioning of the Company's Disclosure Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the consolidated financial statements, MD&As, AIF, Management Information Circular and other documents and external communications.

Based on an evaluation of the Company's disclosure control and procedures, the Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of December 31, 2023. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2023, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

17. Current and Future Accounting Standards

A summary of the Company's material accounting policies is included in Note 3 of the Company's 2023 audited annual consolidated financial statements.

<u>Accounting standards, interpretations and amendments not yet adopted</u>

There are a number of interpretations and amendments to existing standards have been published by the International Accounting Standards Board ("**IASB®**") that are not yet in effect. The Company has not early adopted these interpretations or amendments. The interpretations and amendments not expected to have an impact on the Company's consolidated financial statements have not been disclosed.

The following amendments may have an impact of the Company's consolidated financial statements in future reporting periods:

Non-current Liabilities with Covenants (Amendments to IAS 1)

In October 2022, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, seeking to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.The Company is in the process of assessing the impact of this amendment on its consolidated financial statements.

International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)

In December 2021, the Organization for Economic Co-operation and Development ("**OECD**") issued model rules for a new global minimum tax framework ("**Pillar Two**"), and various governments around the world have issued, or are in the process of issuing, legislation on this. In Canada, the government released draft legislation on Pillar Two in August 2023. In May and June 2023 respectively, the IASB issued amendments to IAS 12 - Income Taxes, introducing a mandatory temporary exception to recognising and disclosing information about deferred tax assets and liabilities that relate to tax law enacted or substantively enacted to implement the Pillar Two model rules. The Company is yet to apply the mandatory temporary exception as the Pillar Two legislation has not yet been enacted in the jurisdiction in which it operates. The Company is in the process of assessing the impact of this international tax reform on its consolidated financial statements.

18. Outstanding Share Data

As of the date hereof, 33,529,713 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,110,633 stock options to purchase an equivalent number of common shares, 213,700 performance share units, 235,902 restricted share units and 94,598 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.

19. 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.

<u>Same Store Sales (SSS)</u>

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)	Q4 **2023**	Q4 2022	Annual **2023**	Annual 2022
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:				
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
EBITDA	**50,218**	50,711	**189,206**	210,494
Adjustments:				
Acquisition costs(1)	**-**	449	**1,255**	449
ERP implementation costs(2)	**-**	603	**-**	2,637
Share-based compensation(3)	**1,138**	1,242	**6,297**	4,979
Total adjustments	**$ 1,138**	$ 2,294	**$ 7,552**	$ 8,065
Operating EBITDA	**$ 51,356**	$ 53,005	**$ 196,758**	$ 218,559
Operating EBITDA margin (%)	**20.1%**	21.8%	**21.0%**	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(1)	**-**	449	**1,255**	449
ERP implementation costs(2)	**-**	603	**-**	2,637
Share-based compensation(3)	**1,138**	1,242	**6,297**	4,979
Accretion expense(4)	**(4,070)**	(18,370)	**(2,880)**	(13,850)
Tax impact of all adjustments(5)	**(231)**	(519)	**$ (1,721)**	$ (1,818)
Total adjustments	**$ (3,163)**	$ (16,595)	**$ 2,951**	$ (7,603)
Adjusted net income attributable to the Company	**$ 19,308**	$ 23,874	**$ 74,143**	$ 102,868
Weighted average number of shares – Basic	**34,154**	35,456	**34,622**	36,316
Weighted average number of shares – Diluted	**34,466**	35,747	**34,922**	36,648
Basic EPS	**$ 0.66**	$ 1.14	**$ 2.06**	$ 3.04
Diluted EPS	**$ 0.65**	$ 1.13	**$ 2.04**	$ 3.01
Basic adjusted EPS	**$ 0.57**	$ 0.67	**$ 2.14**	$ 2.83
Diluted adjusted EPS	**$ 0.56**	$ 0.67	**$ 2.12**	$ 2.81

Notes:

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

(2) Adjustment for charges related to the Company's ERP implementation project resulting in significantly increased costs during the implementation phase relative to the ongoing operating costs.

(3) Adjustment for share-based compensation.

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

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

20. 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.