

Sleep Country Canada Acquisition of Silk & Snow

December 20, 2022



Disclaimers

Forward-looking Information

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Non-IFRS Measures and Retail Industry Metrics

The Company prepares its consolidated financial statements in accordance with IFRS. 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 uses certain non-IFRS measures, including "Same Store Sales" or "SSS", "EBITDA", "Operating EBITDA", "Operating EBITDA Margin", "Adjusted Net Income" and "Adjusted EPS". 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 non-IFRS 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 non-IFRS measures in the evaluation of issuers. For a reconciliation of these non-IFRS measures refer to the Company's MD&A for Q3 2022 which is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Readers are cautioned that these non-IFRS measures are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. 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.

Overview of Silk & Snow

Background

- Silk & Snow successfully completed a Kickstarter campaign in 2017 which was followed shortly by the launch of its eCommerce site with a single memory foam mattress
- Subsequently added a Hybrid mattress in 2018 and extended its offering to pillows, duvets, mattress protectors and bed frames in 2019
- Mattresses accounted for 94% of Revenue in the fiscal year ending August 31, 2019 and all other categories now account for more than half of revenue today
 - In 2022, the product offering expanded outside of the bedroom with the launch of a line of Bath products including towels, robes and bath mats
- The Company has been ranked one of Canada's top growing companies by the Globe & Mail and/or Canadian Business for three consecutive years (2020-2022)

Operations

- Headquartered in Toronto and led by co-founders Albert (CEO) and Kenneth (Chief Operating Officer)
- Silk & Snow generated over \$35 million of Revenue for the trailing twelve months as of November 30, 2022 with a Canada / USA revenue split of ~75% / 25%
- Products are manufactured in Canada, the U.S., Europe, South American and Asia and are warehoused and fulfilled with 3PL partners based in Toronto



Transaction Overview

Acquisition

- Sleep Country has agreed to acquire 100% of Silk and Snow for an upfront consideration of ~\$24 million in cash (LTM EBITDA multiple ~5.6x)
 - Sleep Country will pay up to an additional \$19.45 million in early 2026 based Silk and Snow achieving certain growth and profitability targets in aggregate for fiscal years 2023, 2024 and 2025
 - Silk & Snow's management team will be eligible to participate in Sleep Country's existing LTI plan

Financing Sources

- Acquisition will be financed either through a draw on Sleep Country's existing revolving credit facility or cash on hand
- Sleep Country's pro forma net debt to LTM EBITDA (post-IFRS16) of approximately 1.4x at transaction closing

Operations and Integration

- Silk & Snow will continue to be operated as a separate business within Sleep Country
 - Silk & Snow co-founders Albert Chow and Kenneth Mo will remain as CEO and COO and join the senior leadership team of Sleep Country
- Sleep Country to support with HR, compliance and procurement; future opportunities for collaboration and integration with the Company's two other DTC businesses, Hush and Endy, to be explored over time

Closing

- Subject to customary closing conditions, with expected closing effective January 1, 2023

Investment Highlights

One of Canada's Strongest DTC Sleep Brands

Profitable Business with Multiple Avenues for Future Growth

Expansion of Sleep Country's Product Assortment

Financially Attractive Acquisition with Synergy Potential



One of Canada's Strongest DTC Sleep Brands

Ranked Three Consecutive Years in the Canadian Business and Globe & Mail's List of Canada's Top Growing Companies

Purpose Driven Brand With Strong Customer Loyalty and Repeat Rates

Over 100,000 Unique Customers

Distinct Brand Aesthetic That Is Both Timeless and Aspirational



Profitable Business with Multiple Avenues for Future Growth

Track Record of Successful Product Development

- Grown from a single mattress to over 30 product types across Mattresses, Bedroom Furniture and Bedding
- Expanded outside of the bedroom with new Bath category in 2022

Continued Expansion into the U.S.

- Sales have grown tenfold over the prior two years
- U.S. sales represent ~25% of trailing 12-month sales

Nascent Wholesale Channel

- Wholesale currently represents <10% of total Revenue across <10 accounts

Omni-Channel Expansion

- Successful physical retail activations with partners such as EQ3 & Indigo
- Exploring a pop-up store concept
- Finalizing design and procuring fixtures



Expansion of Sleep Country's Product Assortment



Silk & Snow's thoughtfully curated product offering includes mattresses, furniture, bed essentials and its new bath lineup



Financially Attractive Acquisition with Synergy Potential

Immediately Accretive

- Transaction is immediately accretive to EPS (excluding synergies)

Compelling Valuation

- Attractive acquisition multiple for a high growth early-stage business growing that is already profitable and with significant free cash flow generation

Value-Creating Use of Capital

- Acquisition of Silk and Snow represents a value-enhancing deployment of capital
 - Sleep Country's balance sheet remains well-capitalized allowing for an opportunistic approach to acquisitions and continued share repurchases under its NCIB

Future Synergy Potential

- Silk and Snow will continue to manage front-end of marketing, community, brand management and product innovation
- Over time, will explore further opportunities for synergies and collaboration with Sleep Country's two other DTC brands Endy and Hush