

# Sleep Country Canada Holdings Inc.

## Management's Discussion and Analysis

September 30, 2023

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## 1. Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of November 9, 2023 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 third quarter ended September 30, 2023 and it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and the accompanying notes for the third quarter ended September 30, 2023 and the audited consolidated financial statements of the Company and the accompanying notes for the year ended December 31, 2022 and the related MD&A.

### Basis of Presentation

All references in this MD&A to "**Q3 2023**" are to the Company's quarter ended September 30, 2023, "**Q3 2022**" are to the Company's quarter ended September 30, 2022 and "**Q3 2021**" are to the Company's quarter ended September 30, 2021. All references in the MD&A to "**YTD 2023**" are to the Company's nine-month period ended September 30, 2023, "**YTD 2022**" are to the Company's nine-month period ended September 30, 2022, and "**YTD 2021**" are to the Company's nine-month period ended September 30, 2021.

The Company's Q3 2023 unaudited condensed interim consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as applicable to interim financial statements, including International Accounting Standards 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS, have been omitted or condensed. Accordingly, the condensed interim consolidated financial statement should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2022.

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

The unaudited condensed interim consolidated financial statements of the Company and the accompanying notes for the third quarter ended September 30, 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 November 9, 2023.

### 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 2022 annual information form (the "AIF") filed on March 2, 2023. A copy of the AIF can be accessed under the Company's profile on the SEDAR+ at [www.sedarplus.ca](http://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's 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**"). The Company also operates under three direct-to-consumer retail banners: Endy™, Hush™ and Silk & Snow™. These six 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 its 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 touchpoints. The Sleep Country and Dormez-vous brands are highly recognized in the Canadian retail landscape.

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 leading direct-to-consumer sleep retailers offering customers with an expanding product assortment to meet their sleep needs. It is one of Canada's most recognized online retail brands.

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

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.

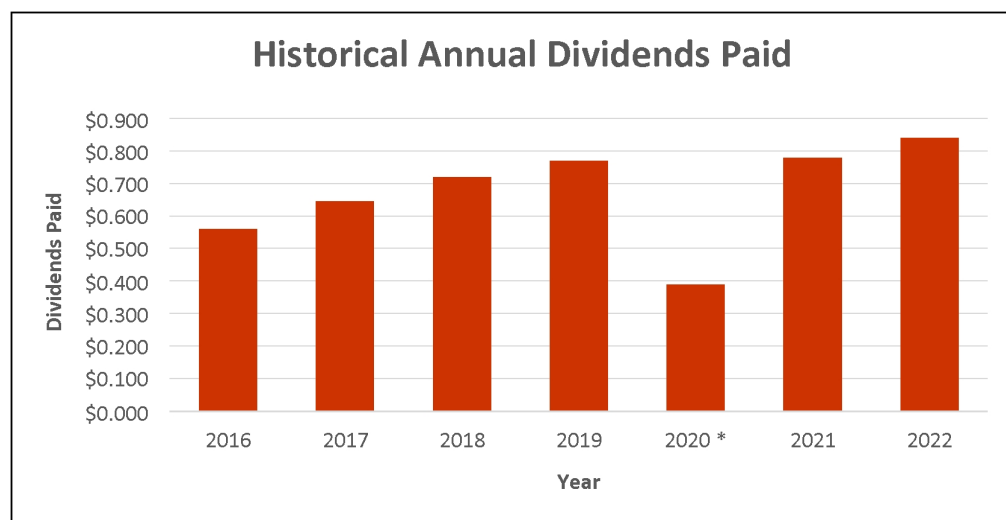
In April 2023, the Company acquired the Canadian operations of Casper Sleep Inc., including six retail stores. The Casper brand is one of the most recognized sleep brands in the world. Its product offering includes a wide range of sleep products including mattresses, bed frames, pillows, bedding and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

As at September 30, 2023, the Company has a growing network of 296 corporate-owned stores (Q3 2022 – 287 stores), and 19 "Sleep Country Express"/"Dormez-vous Express" stores ("**Express Stores**") (Q3 2022 – 11 Express Stores). The Company's distribution network includes 19 warehouses (Q3 2022 – 20 warehouses) across Canada.

### 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 2016 to 2022.



\* 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:

<b>Date of declaration</b>	<b>Record date</b>	<b>Payment date</b>	<b>Dividend declared (per common share)</b>
November 9, 2020	November 20, 2020	November 30, 2020	\$ 0.195
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

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

On November 9, 2023, the Company declared a dividend of \$0.237 per common share payable on November 30, 2023 to holders of the common shares of record as at the close of business on November 24, 2023.

## 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.

Effective June 10, 2022, 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.

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.

Effective March 9, 2023 the Company received pre-clearance from the TSX and established a new ASPP in connection with the current NCIB.

For the nine-month period ended September 30, 2023, the Company purchased for cancellation 464,711 common shares (Q3 2022 – 1,362,877) at an average price of \$23.93 (Q3 2022 – \$26.26) for total consideration of \$11.1 million (Q3 2022 – \$35.8 million).

## **4. Factors Affecting the Results of Operations**

### Revenues

The Company's revenues are derived from the sale of mattresses and accessories through its Banners. Mattresses revenue includes sales of mattresses, lifestyle adjustable bases, boxsprings and frames. Accessories revenue includes the sales of pillows, sheets, duvets, weighted blankets, quilts, duvet covers, mattress toppers, mattress and pillow protectors, pet beds, throws, cushions, sleep bundles, headboards, footboards, storage benches, night stands, bath linens, robes, sleepwear, 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. Revenues from the sale of third party warranties are recognized based on the net amount of consideration retained after monies owed to the third-party provider.

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

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

SSS is primarily driven by:

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

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

#### Product Expansion Opportunities

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

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

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

- Purple Innovation, a U.S. mattress and bedding leader, that uses innovation and technology to create comfort solutions including its signature Purple® Mattress;
- 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.

### Online Expansion Opportunities

Each of the Company's banners have their own eCommerce platforms; sleepcountry.ca, dormezvous.com, endy.com, hush.ca, hushblankets.com, silkandsnow.com and casper.ca.

The sleepcountry.ca, dormezvous.com and casper.ca websites provide customers with access to the full range of sleep products available at its respective retail stores. In addition, sleepcountry.ca and dormezvous.com also provide a wide range of online exclusive products offered through the Company's various dropship arrangements. These websites are supported by a digital chat and phone line which are serviced by the Company's Sleep Experts. With this service capability, the Company can offer online customers the same differentiated sleep expertise available at the Company's retail stores. This enhanced omnichannel experience gives customers the flexibility to shop when they want, how they want and where they want.

The Company's direct-to-consumer banners leverage their eCommerce platforms to offer customers best-in-class sleep solutions, no matter their geographical location. Each website is supported by live digital chat with Sleep Experts, with Endy and Silk & Snow offering phone line customer service, and Hush bringing live video consultation to its customers. Through its eCommerce platforms, the Company has the opportunity to expand its digital footprint across North America and into the U.S market.

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 such as Bloom, Casper, Purple, Simba and Serta, 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 September 30, 2023, the Company had 12 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.

To broaden its customer reach through channel innovation and strategic partnership, in Q4 2021, the Company introduced 10 pilot retail Express Stores in Walmart Canada locations. As at September 30, 2023, the Company had 19 pilot Express Stores (Q3 2022 – 11 stores) nationwide.

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.

The following table summarizes the Company's corporate-owned store count for the three-month and nine-month periods ended September 30, 2023 and September 30, 2022:

	Q3		YTD	
	2023	2022	2023	2022
Number of stores, beginning of period <sup>(1)</sup>	295	287	289	285
Stores newly opened <sup>(1)(2)</sup>	1	1	9	3
Stores closed <sup>(1)</sup>	-	1	2	1
Number of stores, end of period <sup>(1)(2)</sup>	296	287	296	287

Note:

- (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.

### Store Design

The Company continuously evaluates its store design to provide customers with the optimal shopping experience. As at September 30, 2023, there are 244 corporate-owned Sleep Country/Dormez-vous stores or 84% of the Sleep Country/Dormez-vous store network that feature the store design introduced in 2014, of which 86 are new stores, 147 are renovated stores and 11 are relocations of existing stores.

## 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 2018, 2019 and 2022 from the Company's Sleep Country and Dormez-vous retail 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	23%
Third quarter	29%
Fourth quarter	26%
Annual total	100%

## Gross Profit

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

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

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

## 5. Interim MD&A – Quarterly Highlights

	Q3			YTD		
	2023	2022	Change	2023	2022	Change
<i>(C\$ thousands unless otherwise stated; other than store count and EPS)</i>						
Revenues	\$ 255,748	\$ 251,026	1.9%	\$ 679,442	\$ 685,629	(0.9%)
SSS (%) <sup>(1)</sup>	(5.5%)	(11.1%)		(7.5%)	2.2%	
Stores opened <sup>(2)(3)</sup>	1	1		9	3	
Stores closed	-	1		2	1	
Gross profit margin (%)	39.7%	38.5%		37.0%	36.5%	
Operating EBITDA <sup>(1)</sup>	\$ 59,839	\$ 65,603	(8.8%)	\$ 145,405	\$ 165,555	(12.2%)
Operating EBITDA margin (%) <sup>(1)</sup>	23.4%	26.1%		21.4%	24.1%	
Net income	\$ 24,650	\$ 28,981	(14.9%)	\$ 48,711	\$ 69,916	(30.3%)
Net income attributable to the Company	\$ 24,705	\$ 28,926	(14.6%)	\$ 48,721	\$ 70,004	(30.4%)
Adjusted net income attributable to the Company <sup>(1)</sup>	\$ 26,790	\$ 32,457	(17.5%)	\$ 54,835	\$ 78,995	(30.6%)
Basic EPS	\$ 0.71	\$ 0.80	(11.3%)	\$ 1.40	\$ 1.91	(26.7%)
Diluted EPS	\$ 0.70	\$ 0.79	(11.4%)	\$ 1.39	\$ 1.89	(26.5%)
Basic adjusted EPS <sup>(1)</sup>	\$ 0.77	\$ 0.90	(14.4%)	\$ 1.58	\$ 2.16	(26.9%)
Diluted adjusted EPS <sup>(1)</sup>	\$ 0.76	\$ 0.89	(14.6%)	\$ 1.56	\$ 2.14	(27.1%)

### 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) This figure does not include the pilot Express Stores in the Walmart Canada licensee spaces. As at September 30, 2023, the Company had 19 Express Stores (Q3 2022 – 11 stores).
- (3) This figure includes the six Casper stores acquired as part of the acquisition of the Canadian assets from Casper Sleep Inc. in April 2023.

## Highlights of Results in Q3 2023

Q3 2023 compared to Q3 2022 - See “Non-IFRS and Other Measures”.

- Revenues increased by \$4.7 million or 1.9% from \$251.0 million in Q3 2022 to \$255.7 million in Q3 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022, and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS by 5.5%;
- Revenues attributed to eCommerce increased by 190 basis points from 18.5% in Q3 2022 to 20.4% in Q3 2023;
- Gross profit increased by \$4.8 million or 5.0% from \$96.6 million in Q3 2022 to \$101.4 million in Q3 2023;
- Gross profit margin increased by 120 basis points from 38.5% in Q3 2022 to 39.7% in Q3 2023;
- Operating EBITDA decreased by \$5.8 million or 8.8% from \$65.6 million in Q3 2022 to \$59.8 million in Q3 2023 mainly driven by higher advertising, compensation, and information technology 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 270 basis points from 26.1% in Q3 2022 to 23.4% in Q3 2023;
- Net income attributable to the Company decreased by \$4.2 million or 14.6% from \$28.9 million in Q3 2022 to \$24.7 million in Q3 2023 mainly due to the decrease in Operating EBITDA and increase in finance related expenses; partially offset by increases in foreign exchange gains and investment income, as well as a decrease in income taxes;
- Adjusted net income attributable to the Company decreased by \$5.7 million or 17.5% from \$32.5 million in Q3 2022 to \$26.8 million in Q3 2023 mainly due the decrease in net income attributable to the Company and a decrease in accretion expense;
- Diluted EPS decreased by \$0.09 or 11.4% from \$0.79 in Q3 2022 to \$0.70 in Q3 2023; and
- Diluted adjusted EPS decreased by \$0.13 or 14.6% from \$0.89 in Q3 2022 to \$0.76 in Q3 2023.

## Highlights of Results in YTD 2023

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

- Revenues decreased by \$6.2 million or 0.9% from \$685.6 million in YTD 2022 to \$679.4 million in YTD 2023 mainly due to a decrease in SSS by 7.5% which was partially offset by incremental revenue earned from new stores, wrap stores in 2022 and the acquisitions of Silk & Snow and Casper Canada;
- Revenues attributed to eCommerce increased by 220 basis points from 19.1% in YTD 2022 to 21.3% in YTD 2023;
- Gross profit increased by \$1.2 million or 0.5% from \$250.0 million in YTD 2022 to \$251.2 million in YTD 2023;
- Gross profit margin increased by 50 basis points from 36.5% in YTD 2022 to 37.0% in YTD 2023;
- Operating EBITDA decreased by \$20.2 million or 12.2% from \$165.6 million in YTD 2022 to \$145.4 million in YTD 2023 mainly due to higher advertising, compensation, information and technology costs and professional fees 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 270 basis points from 24.1% in YTD 2022 to 21.4% in YTD 2023;
- Net income attributable to the Company decreased by \$21.3 million or 30.4% from \$70.0 million in YTD 2022 to \$48.7 million in YTD 2023 mainly due the decrease in Operating EBITDA, and an increase in finance related expenses; partially offset by a decrease in income taxes;

- Adjusted net income attributable to the Company decreased by \$24.2 million or 30.6% from \$79.0 million in YTD 2022 to \$54.8 million in YTD 2023 due to the decrease in net income attributable to the Company and decreases in accretion expense and professional fees related to the ERP investment; partially offset by increases in share-based compensation and acquisition costs;
- Diluted EPS decreased by \$0.50 or 26.5% from \$1.89 in YTD 2022 to \$1.39 in YTD 2023; and
- Diluted adjusted EPS decreased by \$0.58 or 27.1% from \$2.14 in YTD 2022 to \$1.56 in YTD 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 2023 include continuing to:

- explore new growth opportunities to further expand the Company's business in sleep;
  - In January 2023, the Company completed its acquisition of Silk & Snow Inc., one of Canada's top growing direct-to-consumer sleep brands specializing in high-quality sleep and lifestyle products. The Company acquired substantially all of the net assets of Silk & Snow Inc. for cash consideration of \$24.7 million and up to an additional \$19.5 million in contingent consideration to be paid in 2026 upon achieving certain growth and profitability targets in aggregate for years 2023, 2024 and 2025;
  - In April 2023, the Company acquired substantially all of the net assets of Casper Sleep Inc.'s Canadian operations, including its six stores located in Canada, for \$34.8 million in consideration. Casper is the original disruptor of the mattress-in-the-box industry in North America and award-winning mattress retailer;
- 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;
  - Opened three new stores, and expecting to open six new stores in Q4 2023 under the Sleep Country/Dormez-vous banners;
  - Opening the first Endy store in Q4 2023
  - Opening the first Silk & Snow store in Q4 2023;
  - Launching the first store under the Company's luxury brand, The Rest, in Q4 2023;
- consolidate three of the Company's warehouses into two new warehouse resulting in operational efficiencies;
  - In Q3 2023, the Company opened a new warehouse in Ontario and consolidated its operations with another existing warehouse. Additionally, in Q3 2023, the Company did not renew the warehouse lease it acquired as part of the Hush acquisition in Q4 2021;
  - In Q4 2023, the Company expects to complete the construction of its new Montreal warehouse and consolidate and relocate the operations of two of its existing warehouses in Q4 2023;
- continued investments to enhance the Company's ERP to evolve front-end and back-end operations; and
- continued investment in the Company's digital infrastructure and marketing capabilities across the Banners, grow and optimize our existing eCommerce platforms including third-party online marketplace channels and invest in customer relationship management tools.

## Selected Financial Information

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the unaudited condensed interim consolidated financial statements for Q3 2023 and Q3 2022.

	Q3			YTD		
	2023	2022	Change	2023	2022	Change
<i>(C\$ thousands unless otherwise stated; other than EPS)</i>						
<b>Consolidated Income Statement</b>						
Revenues	\$ 255,748	\$ 251,026	1.9%	\$ 679,442	\$ 685,629	(0.9%)
Cost of sales	154,301	154,403	(0.1%)	428,235	435,675	(1.7%)
Gross profit	101,447	96,623	5.0%	251,207	249,954	0.5%
General and administrative expenses	60,727	49,793	22.0%	163,589	138,627	18.0%
Income before finance related expenses, other expenses (income) and income taxes	40,720	46,830	(13.0%)	87,618	111,327	(21.3%)
Finance related expenses	7,950	6,319	25.8%	21,055	14,643	43.8%
Other expenses (income)	(1,018)	215	(573.5%)	(424)	(361)	17.5%
Net income before provision for income taxes	33,788	40,296	(16.2%)	66,987	97,045	(31.0%)
Provision for income taxes	9,138	11,315	(19.2%)	18,276	27,129	(32.6%)
<b>Net income</b>	<b>\$ 24,650</b>	<b>\$ 28,981</b>	<b>(14.9%)</b>	<b>\$ 48,711</b>	<b>\$ 69,916</b>	<b>(30.3%)</b>
<b>Net income attributable to the Company</b>	<b>\$ 24,705</b>	<b>\$ 28,926</b>	<b>(14.6%)</b>	<b>\$ 48,721</b>	<b>\$ 70,004</b>	<b>(30.4%)</b>
<b>EBITDA<sup>(1)</sup></b>	<b>\$ 57,893</b>	<b>\$ 63,683</b>	<b>(9.1%)</b>	<b>\$ 138,991</b>	<b>\$ 159,785</b>	<b>(13.0%)</b>
<b>Operating EBITDA<sup>(1)</sup></b>	<b>\$ 59,839</b>	<b>\$ 65,603</b>	<b>(8.8%)</b>	<b>\$ 145,405</b>	<b>\$ 165,555</b>	<b>(12.2%)</b>
<b>Operating EBITDA margin (%)<sup>(1)</sup></b>	<b>23.4%</b>	<b>26.1%</b>		<b>21.4%</b>	<b>24.1%</b>	
<b>Adjusted net income attributable to the Company<sup>(1)</sup></b>	<b>\$ 26,790</b>	<b>\$ 32,457</b>	<b>(17.5%)</b>	<b>\$ 54,835</b>	<b>\$ 78,995</b>	<b>(30.6%)</b>
<b>Basic EPS</b>	<b>\$ 0.71</b>	<b>\$ 0.80</b>	<b>(11.3%)</b>	<b>\$ 1.40</b>	<b>\$ 1.91</b>	<b>(26.7%)</b>
<b>Diluted EPS</b>	<b>\$ 0.70</b>	<b>\$ 0.79</b>	<b>(11.4%)</b>	<b>\$ 1.39</b>	<b>\$ 1.89</b>	<b>(26.5%)</b>
<b>Basic adjusted EPS<sup>(1)</sup></b>	<b>\$ 0.77</b>	<b>\$ 0.90</b>	<b>(14.4%)</b>	<b>\$ 1.58</b>	<b>\$ 2.16</b>	<b>(26.9%)</b>
<b>Diluted adjusted EPS<sup>(1)</sup></b>	<b>\$ 0.76</b>	<b>\$ 0.89</b>	<b>(14.6%)</b>	<b>\$ 1.56</b>	<b>\$ 2.14</b>	<b>(27.1%)</b>
<b>Dividends declared per share</b>	<b>\$ 0.237</b>	<b>\$ 0.215</b>	<b>10.2%</b>	<b>\$ 0.689</b>	<b>\$ 0.625</b>	<b>10.2%</b>
	<b>30-Sep-23</b>			<b>31-Dec-22</b>		
<b>Total assets</b>	<b>\$1,090,047</b>			<b>\$1,021,719</b>		
<b>Total long-term lease liabilities and long-term debt</b>	<b>\$ 415,801</b>			<b>\$ 374,252</b>		

Note:

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

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the unaudited condensed interim consolidated financial statements for Q3 2022 and Q3 2021.

	Q3			YTD		
	2022	2021	Change <sup>(2)</sup>	2022	2021	Change <sup>(2)</sup>
<i>(C\$ thousands unless otherwise stated; other than EPS)</i>						
<b>Consolidated Income Statement</b>						
Revenues	\$ 251,026	\$ 273,840	(8.3%)	\$ 685,629	\$ 649,035	5.6%
Cost of sales	154,403	171,114	(9.8%)	435,675	429,708	1.4%
Gross profit	96,623	102,726	(5.9%)	249,954	219,327	14.0%
General and administrative expenses	49,793	48,840	2.0%	138,627	121,962	13.7%
Income before finance related expenses, other expenses (income) and income taxes	46,830	53,886	(13.1%)	111,327	97,365	14.3%
Finance related expenses	6,319	3,979	58.8%	14,643	12,578	16.4%
Other expenses (income)	215	22	877.3%	(361)	194	(286.1%)
Net income before provision for income taxes	40,296	49,885	(19.2%)	97,045	84,593	14.7%
Provision for income taxes	11,315	13,427	(15.7%)	27,129	22,423	21.0%
<b>Net income</b>	<b>\$ 28,981</b>	<b>\$ 36,458</b>	<b>(20.5%)</b>	<b>\$ 69,916</b>	<b>\$ 62,170</b>	<b>12.5%</b>
<b>Net income attributable to the Company</b>	<b>\$ 28,926</b>	<b>\$ 36,458</b>	<b>(20.7%)</b>	<b>\$ 70,004</b>	<b>\$ 62,170</b>	<b>12.6%</b>
<b>EBITDA<sup>(1)</sup></b>	<b>\$ 63,683</b>	<b>\$ 69,412</b>	<b>(8.3%)</b>	<b>\$ 159,785</b>	<b>\$ 142,234</b>	<b>12.3%</b>
<b>Operating EBITDA<sup>(1)</sup></b>	<b>\$ 65,603</b>	<b>\$ 73,659</b>	<b>(10.9%)</b>	<b>\$ 165,555</b>	<b>\$ 148,823</b>	<b>11.2%</b>
<b>Operating EBITDA margin (%)<sup>(1)</sup></b>	<b>26.1%</b>	<b>26.9%</b>		<b>24.1%</b>	<b>22.9%</b>	
<b>Adjusted net income attributable to the Company<sup>(1)</sup></b>	<b>\$ 32,457</b>	<b>\$ 39,707</b>	<b>(18.3%)</b>	<b>\$ 78,995</b>	<b>\$ 67,365</b>	<b>17.3%</b>
<b>Basic EPS</b>	<b>\$ 0.80</b>	<b>\$ 0.99</b>	<b>(19.2%)</b>	<b>\$ 1.91</b>	<b>\$ 1.69</b>	<b>13.0%</b>
<b>Diluted EPS</b>	<b>\$ 0.79</b>	<b>\$ 0.98</b>	<b>(19.4%)</b>	<b>\$ 1.89</b>	<b>\$ 1.67</b>	<b>13.2%</b>
<b>Basic adjusted EPS<sup>(1)</sup></b>	<b>\$ 0.90</b>	<b>\$ 1.08</b>	<b>(16.7%)</b>	<b>\$ 2.16</b>	<b>\$ 1.83</b>	<b>18.0%</b>
<b>Diluted adjusted EPS<sup>(1)</sup></b>	<b>\$ 0.89</b>	<b>\$ 1.07</b>	<b>(16.8%)</b>	<b>\$ 2.14</b>	<b>\$ 1.81</b>	<b>18.2%</b>
<b>Dividends declared per share</b>	<b>\$ 0.215</b>	<b>\$ 0.195</b>	<b>10.3%</b>	<b>\$ 0.625</b>	<b>\$ 0.585</b>	<b>6.8%</b>
	<b>30-Sep-22</b>			<b>31-Dec-21</b>		
<b>Total assets</b>	<b>\$ 988,393</b>			<b>\$ 988,035</b>		
<b>Total long-term lease liabilities and long-term debt</b>	<b>\$ 327,645</b>			<b>\$ 346,233</b>		

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 Q3 2022 MD&A for discussion related to performance analysis.

## 6. Third Quarter 2023 versus Third Quarter 2022

### Revenues

Revenues increased by \$4.7 million or 1.9% from \$251.0 million in Q3 2022 to \$255.7 million in Q3 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS (See “Non-IFRS and Other Measures”) by 5.5%.

In Q3 2023, Revenues attributed to eCommerce increased by 190 basis points from 18.5% in Q3 2022 to 20.4% in Q3 2023.

The increase in Revenues by \$4.7 million was comprised of a \$2.5 million increase in mattresses revenues and a \$2.2 million increase in accessories revenues in Q3 2023 versus Q3 2022.

	<b>Q3</b>				
<i>(C\$ millions unless otherwise stated)</i>	<b>2023</b>	2022	Change	Change (%)	
Mattresses	\$ 194.5	\$ 192.0	\$ 2.5	1.3%	
Accessories	\$ 61.2	\$ 59.0	\$ 2.2	3.7%	
Total	\$ 255.7	\$ 251.0	\$ 4.7	1.9%	

### Gross profit

Gross profit increased by \$4.8 million from \$96.6 million in Q3 2022 to \$101.4 million in Q3 2023. Gross profit margin increased by 120 basis points from 38.5% in Q3 2022 to 39.7% in Q3 2023. The increase in gross profit margin in Q3 2023 versus Q3 2022 was mainly a result of the following:

- inventory and other directly related expenses decreased, as percentage of Revenues, by 1.6% from 41.4% in Q3 2022 to 39.8% in Q3 2023 primarily due to higher A USP and lower product costs;
- sales and distribution compensation expenses increased, as a percentage of Revenues, by 0.4% from 12.4% in Q3 2022 to 12.8% in Q3 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 2.6% in Q3 2022 to 2.8% in Q3 2023 due to the Company deleveraging tied to its occupancy costs which were also impacted by the Company's nine new stores, of which six stores were part of the Casper Canada acquisition.



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

Total G&A expenses increased by \$10.9 million or 22.0% from \$49.8 million in Q3 2022 to \$60.7 million in Q3 2023, and, as a percentage of Revenues, G&A expenses increased from 19.8% of Revenues in Q3 2022 to 23.7% of Revenues in Q3 2023.

	<b>Q3</b>				
<i>(C\$ millions unless otherwise stated)</i>	<b>2023</b>	<b>% of revenue</b>	<b>2022</b>	<b>% of revenue</b>	<b>Change</b>
Media and advertising expenses <sup>(1)</sup>	\$ 24.1	9.4%	\$ 19.6	7.8%	\$ 4.5
Salaries, wages and benefits <sup>(2)</sup>	13.7	5.4%	9.4	3.7%	4.3
Credit card and finance charges <sup>(3)</sup>	6.1	2.4%	5.3	2.1%	0.8
Occupancy charges	2.4	0.9%	2.3	0.9%	0.1
Professional fees	2.4	0.9%	2.4	1.0%	0.0
Telecommunication and information technology <sup>(4)</sup>	3.9	1.5%	3.0	1.2%	0.9
Mattresses recycling and donations	1.1	0.4%	1.1	0.4%	0.0
Depreciation and amortization	5.5	2.2%	5.5	2.2%	0.0
Other	1.5	0.6%	1.2	0.5%	0.3
<b>Total G&amp;A expenses</b>	<b>\$ 60.7</b>	<b>23.7%</b>	<b>\$ 49.8</b>	<b>19.8%</b>	<b>\$ 10.9</b>

#### Notes:

- (1) Media and advertising expenses increased by \$4.5 million mainly 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 costs, production costs and a decrease in advertising credits. This increase was partially offset by a decrease in radio advertising costs.
- (2) Salaries, wages and benefits increased by \$4.3 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 driven by the over performance of the 2021 PSU plan.
- (3) Credit card and finance charges are variable costs and these costs increased as a percentage of Revenues by 0.3% mainly due to an increase in financing rates.
- (4) Telecommunication and information technology expenses increased by \$0.9 million mainly due to increases in software licensing fees and support expenses.

## EBITDA

EBITDA decreased by \$5.8 million or 9.1% from \$63.7 million in Q3 2022 to \$57.9 million in Q3 2023. The decrease was mainly due to higher advertising, compensation and information technology costs that were also 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 \$59.8 million for Q3 2023, or 23.4% of Revenues, compared to \$65.6 million for Q3 2022, or 26.1% of Revenues, representing a decrease of \$5.8 million or 8.8% mainly due to the decrease in EBITDA. See “Non-IFRS and Other Measures”.

## Finance related expenses

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

## Other expenses (income)

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

## Income taxes

Net income before income taxes in Q3 2023 decreased by \$6.5 million from \$40.3 million in Q3 2022 to \$33.8 million in Q3 2023. The Company's effective income tax rate decreased by 110 basis points from 28.1% in Q3 2022 to 27.0% in Q3 2023. This resulted in a decrease to income taxes of \$2.2 million in Q3 2023 versus Q3 2022.

## Net income attributable to the Company

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

## Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q3 2023 decreased by \$5.7 million from \$32.5 million (\$0.90 per share) in Q3 2022 to \$26.8 million (\$0.77 per share) in Q3 2023. See “Non-IFRS and Other Measures”.

## 7. YTD 2023 versus YTD 2022

Revenues decreased by \$6.2 million or 0.9% from \$685.6 million in YTD 2022 to \$679.4 million in YTD 2023 mainly due to a decrease in SSS (See “Non-IFRS and Other Measures”) by 7.5%, which was partially offset by incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada.

In YTD 2023, Revenues attributed to eCommerce increased by 220 basis points from 19.1% in YTD 2022 to 21.3% in YTD 2023.

The decrease in Revenues by \$6.2 million was comprised of a decrease in mattresses revenues of \$13.2 million partially offset by an increase in accessories revenues of \$7.0 million in YTD 2023 versus YTD 2022.

	<b>YTD</b>				
<i>(C\$ millions unless otherwise stated)</i>	<b>2023</b>	2022	Change	Change (%)	
Mattresses	\$ <b>514.3</b>	\$ 527.5	\$ (13.2)	(2.5%)	
Accessories	\$ <b>165.1</b>	\$ 158.1	\$ 7.0	4.4%	
Total	\$ <b>679.4</b>	\$ 685.6	\$ (6.2)	(0.9%)	

### Gross profit

Gross profit increased by \$1.2 million from \$250.0 million in YTD 2022 to \$251.2 million in YTD 2023. Gross profit margin increased by 50 basis points from 36.5% in YTD 2022 to 37.0% in YTD 2023. Gross profit margin was impacted in YTD 2023 versus YTD 2022 by the following:

- inventory and other directly related expenses decreased as a percentage of Revenues by 1.2% from 41.7% in YTD 2022 to 40.5% in YTD 2023 primarily due to higher A USP and lower product costs;
- sales and distribution compensation expenses increased as a percentage of Revenues by 0.3% from 13.4% in YTD 2022 to 13.7% in YTD 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 0.3% from 2.9% in YTD 2022 to 3.2% in YTD 2023 due to the Company deleveraging its occupancy costs which were also impacted by the Company's nine new stores of which six stores were part of the Casper Canada acquisition.

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

Total G&A expenses increased by \$25.0 million or 18.0% from \$138.6 million in YTD 2022 to \$163.6 million in YTD 2023, and, as a percentage of Revenues, G&A expenses increased from 20.2% of Revenues in YTD 2022 to 24.1% of Revenues in YTD 2023.

<i>(C\$ millions unless otherwise stated)</i>	YTD				
	2023	% of revenue	2022	% of revenue	Change
Media and advertising expenses <sup>(1)</sup>	\$ 58.9	8.7%	\$ 51.1	7.5%	\$ 7.8
Salaries, wages and benefits <sup>(2)</sup>	37.9	5.6%	30.4	4.4%	7.5
Credit card and finance charges <sup>(3)</sup>	16.0	2.4%	14.3	2.1%	1.7
Occupancy charges	8.0	1.2%	7.2	1.1%	0.8
Professional fees <sup>(4)</sup>	8.3	1.2%	6.9	1.0%	1.4
Telecommunication and information technology <sup>(5)</sup>	10.5	1.5%	8.5	1.2%	2.0
Mattresses recycling and donations	2.7	0.4%	2.8	0.4%	(0.1)
Depreciation and amortization <sup>(6)</sup>	16.8	2.5%	14.4	2.1%	2.4
Other <sup>(7)</sup>	4.5	0.6%	3.0	0.4%	1.5
<b>Total G&amp;A expenses</b>	<b>\$ 163.6</b>	<b>24.1%</b>	<b>\$ 138.6</b>	<b>20.2%</b>	<b>\$ 25.0</b>

### Notes:

- (1) Media and advertising expenses increased by \$7.8 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 costs, production and publicity costs and a decrease in advertising credits. This increase was partially offset by decreases in newspaper and radio advertising costs.
- (2) Salaries, wages and benefits increased by \$7.5 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.
- (3) Credit card and finance charges are variable costs. These costs increased as a percentage of Revenues by 0.3% mainly due an increase in financing rates.
- (4) Professional fees increased by \$1.4 million mainly due to legal fees incurred in relation to acquisition activities; partly offset by a decrease in consulting fees primarily related to the ERP implementation project.
- (5) Telecommunication and information technology expenses increased by \$2.0 million mainly due to increases in software licensing fees and software support expenses.
- (6) Depreciation expenses increased by \$2.4 million mainly due to an increase in intangible depreciation partially as a result of the acquisitions of Silk & Snow and Casper Canada, as well as an increase in depreciation expenses resulting from the relocation of an existing warehouse into a new location.
- (7) Other expenses increased by \$1.5 million mainly due to increases in supplies, recruitment, travel, meals and entertainment expenses.

## EBITDA

EBITDA decreased by \$20.8 million from \$159.8 million in YTD 2022 to \$139.0 million in YTD 2023. The decrease was mainly due to higher advertising, compensation, information technology costs and professional fees that were also 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 \$145.4 million for YTD 2023, or 21.4% of Revenues, compared to \$165.6 million for YTD 2022, or 24.1% of Revenues, representing a decrease of \$20.2 million or 12.2% mainly due to the decrease in EBITDA. See “Non-IFRS and Other Measures”.

## Finance related expenses

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

## Other expenses (income)

Other expenses (income) remained unchanged at \$0.4 million in YTD 2022 and YTD 2023.

## Income taxes

Net income before income taxes in YTD 2023 decreased by \$30.0 million from \$97.0 million in YTD 2022 to \$67.0 million in YTD 2023. The Company's effective income tax rate decreased by 70 basis points from 28.0% in YTD 2022 to 27.3% in YTD 2023. This resulted in a decrease to income taxes of \$8.8 million in YTD 2023 versus YTD 2022.

## Net Income attributable to the Company

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

## Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for YTD 2023 decreased by \$24.2 million from \$79.0 million (\$2.16 per share) in YTD 2022 to \$54.8 million (\$1.58 per share) in YTD 2023. 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. The impact of COVID-19 on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated store closures, may have had an impact on seasonality in the retail sleep space.

<i>(C\$ thousands unless otherwise stated, except EPS)</i>	2023					2022			2021	
	Q3	Q2	Q1	YTD	Q4	Q3	Q2	Q1	Annual	Q4
Revenues	\$ 255,748	\$ 217,199	\$ 206,495	\$ 679,442	\$ 243,028	\$ 251,026	\$ 227,575	\$ 207,028	\$ 928,657	\$ 271,158
SSS (%) <sup>(1)</sup>	(5.5%)	(10.9%)	(6.2%)	(7.5%)	(11.5%)	(11.1%)	15.1%	8.8%	(1.8%)	3.2%
Gross profit	\$ 101,447	\$ 78,970	\$ 70,789	\$ 251,207	\$ 91,075	\$ 96,623	\$ 81,700	\$ 71,633	\$ 341,028	\$ 97,720
Gross profit margin (%)	39.7%	36.4%	34.3%	37.0%	37.5%	38.5%	35.9%	34.6%	36.7%	36.0%
EBITDA <sup>(1)</sup>	\$ 57,893	\$ 41,428	\$ 39,668	\$ 138,991	\$ 50,711	\$ 63,683	\$ 51,866	\$ 44,239	\$ 210,494	\$ 57,314
Operating EBITDA <sup>(1)</sup>	\$ 59,839	\$ 44,204	\$ 41,360	\$ 145,405	\$ 53,005	\$ 65,603	\$ 53,242	\$ 46,714	\$ 218,559	\$ 62,065
Operating EBITDA margin (%) <sup>(1)</sup>	23.4%	20.4%	20.0%	21.4%	21.8%	26.1%	23.4%	22.6%	23.5%	22.9%
Net income attributable to the Company	\$ 24,705	\$ 12,685	\$ 11,330	\$ 48,721	\$ 40,469	\$ 28,926	\$ 22,665	\$ 18,413	\$ 110,471	\$ 26,433
Adjusted net income attributable to the Company <sup>(1)</sup>	\$ 26,790	\$ 14,796	\$ 13,248	\$ 54,835	\$ 23,874	\$ 32,457	\$ 25,739	\$ 20,800	\$ 102,868	\$ 30,977
Basic EPS	\$ 0.71	\$ 0.36	\$ 0.32	\$ 1.40	\$ 1.14	\$ 0.80	\$ 0.61	\$ 0.50	\$ 3.04	\$ 0.72
Diluted EPS	\$ 0.70	\$ 0.36	\$ 0.32	\$ 1.39	\$ 1.13	\$ 0.79	\$ 0.61	\$ 0.49	\$ 3.01	\$ 0.71
Basic adjusted EPS <sup>(1)</sup>	\$ 0.77	\$ 0.43	\$ 0.38	\$ 1.58	\$ 0.67	\$ 0.90	\$ 0.70	\$ 0.56	\$ 2.83	\$ 0.84
Diluted adjusted EPS <sup>(1)</sup>	\$ 0.76	\$ 0.42	\$ 0.37	\$ 1.56	\$ 0.67	\$ 0.89	\$ 0.69	\$ 0.56	\$ 2.81	\$ 0.83

### 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. 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

### Liquidity

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

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

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

The Company's cash balance was \$38.3 million with an additional \$121.9 million (not including the \$100.0 million accordion) of liquidity available under the Company's credit facility as at September 30, 2023.

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

		<b>YTD</b>
<i>(C\$ thousands unless otherwise stated)</i>	<b>2023</b>	<b>2022</b>
Cash flows provided by operating activities	\$ 114,754	\$ 123,486
Cash flows used by investing activities	(111,300)	(8,225)
Cash flows used by financing activities	(43,516)	(96,746)
Effects of foreign currency exchange rate changes on cash	8	—
Net increase (decrease) in cash	(40,054)	18,515
Cash at beginning of the period	78,318	36,546
Cash at end of the period	\$ 38,264	\$ 55,061

### *Net cash flows provided by operating activities*

Net cash flows provided by operating activities in YTD 2023 were \$114.8 million and consisted of the positive impact of cash generated from operating activities of \$127.1 million offset by \$12.4 million of cash used as a result of an increase in working capital. The increase in working capital in YTD 2023 was primarily driven by higher trade and other receivables and prepaid expenses and deposits, and lower trade and other payables and deferred revenues which were partially offset by lower inventories.

Net cash flows provided by operating activities in YTD 2022 were \$123.5 million and consisted of the positive impact of cash generated from operating activities of \$139.8 million offset by \$16.3 million of cash used as a result of an increase in working capital. The increase in working capital in YTD 2022 was primarily driven by higher inventories and other current assets and lower deferred revenues, which were partially offset by lower trade and other receivables, lower prepaid expenses and deposits and higher trade and other payables.

#### *Net cash flows used by investing activities*

Net cash flows used by investing activities in YTD 2023 were \$111.3 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, \$1.3 million used to purchase an additional 16% share ownership from Non-controlling shareholders of Hush Blankets Inc., with the remaining cash flows 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 YTD 2022 were \$8.2 million and consisted primarily of investments in capital expenditure related to computer hardware, furniture and equipment and leasehold improvements and spend on the investment in the new ERP system and enhanced eCommerce platforms.

#### *Net cash flows used by financing activities*

Net cash flows used by financing activities in YTD 2023 were \$43.5 million and consisted primarily of the repayment on the senior secured credit facility of \$31.0 million, the repayment of the principal on lease obligations of \$29.1 million, dividends paid on the common shares of \$23.9 million, interest payments of \$17.8 million on lease liabilities and the senior secured credit facility, and the repurchase for cancellation of the Company's common shares under the NCIB of \$11.1 million. These cash outflows were partially offset by an additional draw on the senior secured credit facility of \$69.1 million and proceeds received from common shares issued due to exercised stock options of \$0.2 million.

Net cash flows used by financing activities in YTD 2022 were \$96.7 million, consisting primarily of the repurchase for cancellation of the Company's common shares under the NCIB of \$35.8 million, the repayment of the principal on lease obligations of \$29.1 million, dividends paid on the common shares of \$22.8 million, the repayment to the senior secured credit facility of \$21.0 million and interest payments of \$11.8 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 \$21.0 million and \$2.8 million received from common shares issued due to exercised stock options.

#### *Contractual obligations*

There were no material changes to the Company's contractual obligations reported in the Company's Management Discussion and Analysis for the year ended December 31, 2022 ("**2022 Annual MD&A**"), a copy of which can be accessed under the Company's profile on SEDAR+.

#### Capital Resources

##### *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 September 30, 2023.

The senior secured credit facility is secured by the present and after acquired personal property of the Company. As at September 30, 2023, the balance outstanding on the senior secured credit facility was \$138.1 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 September 30, 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 September 30, 2023 and September 30, 2022, nor did it have any subsequent to September 30, 2023.

#### *Related party transactions*

There were no material changes to the Company's related party transactions reported in the 2022 Annual MD&A.

### **11. 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 \$0.8 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 Cybersecurity 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. For example, certain of the Company's subsidiaries were impacted in 2023 by the global vulnerability within the MOVEit data transfer software. This vulnerability allowed unauthorized actors to access and copy certain customer and employee information from the subsidiaries' systems. The Company secured the systems the day that it learned of the vulnerability, conducted an internal and third-party external investigation, and confirmed that no sensitive customer and employee information was affected. This incident did not have a material impact on the Company's day-to-day-operations or financial results; however a future 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.

## 12. Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of the Company's 2022 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of the Company's 2022 audited annual consolidated financial statements and are described below.

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

The unaudited condensed interim consolidated financial statements of the Company for Q3 2023 have been prepared using critical accounting estimates consistent with those in Note 4 of the Company's 2022 audited annual consolidated financial statements.

## 13. Financial Instruments

As at September 30, 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 September 30, 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 September 30, 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 a price 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".

## 14. 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, 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 September 30, 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 September 30, 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 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 Silk & Snow and Casper Canada.

The Company acquired the business of Silk & Snow on January 1, 2023. Silk & Snow's financial results are included in the Company's condensed interim consolidated financial statements for the quarter ended September 30, 2023. For the Consolidated Statement of Financial Position, Silk & Snow constitutes 7.9% of total current assets, 3.3% of total assets, 3.2% of total current liabilities and 1.2% of total liabilities as at September 30, 2023.

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 the quarter ended September 30, 2023. For the Consolidated Statement of Financial Position, Casper Canada constitutes 3.4% of total current assets, 4.1% of total assets, 1.3% of total current liabilities and 1.0% of total liabilities as at September 30, 2023.

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

## **15. Current and Future Accounting Standards**

The condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2022, except for those noted below in addition to the adoption of new standards effective as of January 1, 2023. The Company has not early adopted any standard, interpretation

or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2023, but do have an impact on the interim condensed consolidated financial statements of the Company.

### **Financial assets and liabilities**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets expire and financial liabilities are derecognized when obligations under the contracts expire, are discharged or are cancelled. Financial assets upon initial recognition are classified into two categories: (1) those to be measured subsequently at fair value (either through other comprehensive income or through net income); and (2) those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The following classifications have been applied:

- cash and trade and other receivables are classified as financial assets measured at amortized cost;
- the convertible note receivable and the warrant are measured at fair-value through net income ("FVTPL");
- trade and other payables, deferred revenues, other liabilities and long-term debt have been classified as financial liabilities measured at amortized costs; and
- Interest rate swaps have been classified as financial liabilities measured at FVTPL.

The redemption liabilities presented within other liabilities are recognized initially at fair value, and are subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of income and comprehensive income. For changes in the estimated liabilities amount, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

The contingent consideration liability presented within other liabilities is recognized initially at fair value, and is subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the consideration amount is recognized in the consolidated statements of income and comprehensive income. For changes in the estimated consideration amount, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Long-term debt is recognized initially at fair value, net of recognized transaction costs, and is subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of income and comprehensive income using the effective interest rate method. For debt modifications, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Fees paid on initial recognition and subsequent modifications on the senior credit facilities are capitalized and amortized over the period of the facility to which it relates and are presented net of long-term debt in the consolidated statements of financial position.

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9 - Financial Instruments, which requires expected lifetime losses to be recognized at the time of initial recognition of the receivables.

## 16. Outstanding Share Data

As of the date hereof, 34,640,962 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,131,176 stock options to purchase an equivalent number of common shares, 218,268 performance share units, 238,568 restricted share units and 107,547 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 "Description of Share Capital" in the AIF.

## 17. Non-IFRS and Other Measures

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 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 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. See below for further details concerning how the Company calculates these measures and for reconciliations to the most comparable IFRS measures.

### Same Store Sales (SSS)

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

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;
- finance related expenses;
- 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

	Q3		YTD	
<i>(C\$ thousands unless otherwise stated, except EPS)</i>	2023	2022	2023	2022
<b>Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:</b>				
Net income attributable to the Company	\$ 24,705	\$ 28,926	\$ 48,721	\$ 70,004
Add impact of the following:				
Non-controlling interests	(55)	55	(10)	(88)
Other expenses (income)	(1,018)	215	(424)	(361)
Finance related expenses	7,950	6,319	21,055	14,643
Income taxes	9,138	11,315	18,276	27,129
Depreciation and amortization	17,173	16,853	51,373	48,458
<b>EBITDA</b>	<b>57,893</b>	<b>63,683</b>	<b>138,991</b>	<b>159,785</b>
Adjustments:				
Acquisition costs <sup>(1)</sup>	-	-	1,255	-
ERP implementation costs <sup>(2)</sup>	-	844	-	2,034
Share-based compensation <sup>(3)</sup>	1,946	1,076	5,159	3,736
Total adjustments	\$ 1,946	\$ 1,920	\$ 6,414	\$ 5,770
<b>Operating EBITDA</b>	<b>\$ 59,839</b>	<b>\$ 65,603</b>	<b>\$ 145,405</b>	<b>\$ 165,555</b>
<b>Operating EBITDA margin (%)</b>	<b>23.4%</b>	<b>26.1%</b>	<b>21.4%</b>	<b>24.1%</b>
<b>Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:</b>				
Net income attributable to the Company	\$ 24,705	\$ 28,926	\$ 48,721	\$ 70,004
Adjustments:				
Acquisition costs <sup>(1)</sup>	-	-	1,255	-
ERP implementation costs <sup>(2)</sup>	-	844	-	2,034
Share-based compensation <sup>(3)</sup>	1,946	1,076	5,159	3,736
Accretion expense <sup>(4)</sup>	595	2,061	1,190	4,520
Tax impact of all adjustments <sup>(5)</sup>	(456)	(450)	(1,490)	(1,299)
Total adjustments	\$ 2,085	\$ 3,531	\$ 6,114	\$ 8,991
<b>Adjusted net income attributable to the Company</b>	<b>\$ 26,790</b>	<b>\$ 32,457</b>	<b>\$ 54,835</b>	<b>\$ 78,995</b>
<b>Weighted average number of shares – Basic</b>	<b>34,783</b>	<b>36,017</b>	<b>34,779</b>	<b>36,606</b>
<b>Weighted average number of shares – Diluted</b>	<b>35,175</b>	<b>36,404</b>	<b>35,165</b>	<b>36,984</b>
<b>Basic EPS</b>	<b>\$ 0.71</b>	<b>\$ 0.80</b>	<b>\$ 1.40</b>	<b>\$ 1.91</b>
<b>Diluted EPS</b>	<b>\$ 0.70</b>	<b>\$ 0.79</b>	<b>\$ 1.39</b>	<b>\$ 1.89</b>
<b>Basic adjusted EPS</b>	<b>\$ 0.77</b>	<b>\$ 0.90</b>	<b>\$ 1.58</b>	<b>\$ 2.16</b>
<b>Diluted adjusted EPS</b>	<b>\$ 0.76</b>	<b>\$ 0.89</b>	<b>\$ 1.56</b>	<b>\$ 2.14</b>

### 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.



## **18. 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](http://www.sedarplus.ca). Press releases and other information are also available at the Company's investor relations website at [www.ir.sleepcountry.ca](http://www.ir.sleepcountry.ca).