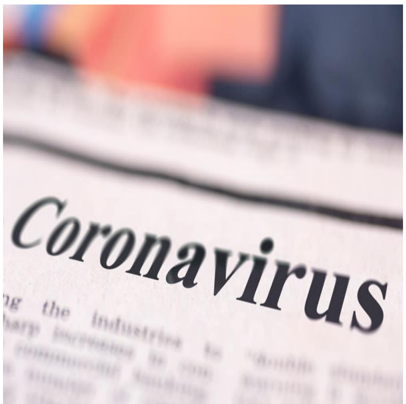

Sleep Country Is Looking Online As COVID-19 Impacts Its Business

Description

With the whole country staying home thanks to the pandemic, beds and mattresses have become de facto offices for a lot of people. I decided to take a look at **Sleep Country Canada Holdings** (TSX:ZZZ), the country's largest player in the mattress segment with 275 stores in the country.

The company reported its first-quarter results for 2020 and revenue increased by 1.5% to $151.6 million when compared to $149.3 million in the first quarter of 2019. The increase in sales was due to a double-digit increase in e-commerce sales.

Gross profit decreased by 2.9% to $41.2 million in Q1 from $42.4 million in the prior-year period. Operating EBITDA for the March quarter decreased to $27.9 million compared to $29.5 million in 2019. Sleep Country ended the quarter with $52.7 million in cash and its existing credit facility balance was $210 million, up from $175.6 million at the end of the first quarter in 2019.

Sleep Country's e-commerce platform delivered a growth of 143% compared to the same period last year. Online sales have increased throughout April and the first week of May. COVID-19 has forced the company to speed up its digital innovation roadmap.

Sleep Country is tightening the belt

Sleep Country was well on its way to a solid first quarter as same-store sales went up by 13.1% compared to Q1 in 2019. March saw a sharp drop as sales slipped by 26.8% year-over-year. Consolidated same-store sales contracted by 0.9% year-over-year as well.

Sleep Country has suspended its dividend and normal course issuer bid program, but says it intends to resume both once operating conditions return to normal. The company has also postponed its capital expenditures and guidance for the year.

There were four stores under renovation that have been delayed as well as eight stores scheduled to be opened in 2020 that have been pushed back.

Drawing Comparisons with 2008

When asked to compare the current situation to the global financial crisis, the company said that while it will cut down its marketing spend now, it will still be aggressive in certain areas. Sleep Country had cut its marketing expense between 2009 and 2011.

It said that a decade ago they had cut it for far too long. This time around, it says it won't make that mistake. It will be prudent with its advertising budgets, but will continue to be aggressive, which means they'll be a lot more of a digital push.

Sleep Country is Canada's largest sleep company, and many independent companies are not likely to make it through the other side of the pandemic. The crisis is a good opportunity to gain market share.

Sleep Country Director and CEO David Friesema believes that the market in Canada in 2008 dropped by 20% and that it took three or four years for the market to revert to normal levels. If we apply the same standards, we can expect the market to grow at 5% for the next four years as business comes back to normal.

CATEGORY

1. Coronavirus
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