TEMPUR SEALY INTERNATIONAL AND SLEEP COUNTRY CANADA

M&A Strategic Analysis

WESTPEAK RESEARCH ASSOCIATION EST. 2014

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(Note: All figures USD, otherwise statement)

Tempur Sealy International Inc.

M&A Strategic Alternatives and Analysis

Company Overview

Overview: Tempur Sealy International, Inc. (NYSE:TPX) is a global manufacturer and distributor of mattresses and bedding products. The company is known for its premium mattresses, including memory foam and hybrid mattresses. TPX has 700+ stores over 100 countries, ranging from North America to Asia.

Growth Strategy: The company is committed to a sustainable growth strategy, focusing on omnichannel sales globally. TPX is dedicated to achieving long-term success by generating high returns on invested capital, including development of leading bedding products across all markets, investments in renowned global brands, and optimization of omni-channel distribution on a global scale.

M&A Rationale: As part of its strategic pursuit of inorganic growth, TPX actively seeks M&A opportunities. In line with this approach, TPX announced the acquisition of Mattress Firm, an American bedding retailer with 2,300 retail locations and an ecommerce platform, in May 2023. This deal, funded by $2.7B cash and a $1.3B common stock, exemplifies TPX's commitment to expanding its market presence and leveraging strategic acquisitions for sustained growth.

Key Valuation Metrics

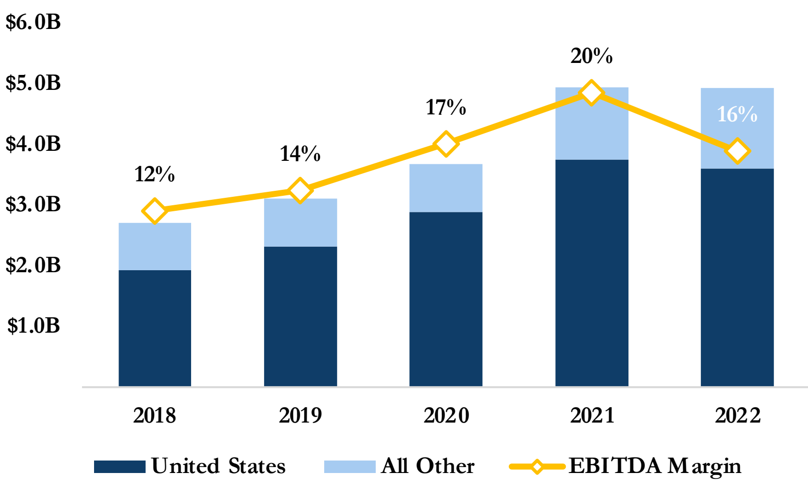
Enterprise Value	12.0B	Revenue (FY2022)	4.9B
Market Cap	8.8B	EBITDA (FY2022)	756.8M
P/E	11.1x	Total Debt/Equity	1.0x
EV/Revenue	2.4x	Total Cash	74.9M
EV/EBITDA	12.3x	Total Debt	3.3B
Operating Margin	14.0%	Current Ratio	1.2x

(Currency in USD as of 17/02/2024)

Revenue Breakdown

Annual Sales (USD) by Geographic Segment

2018 FY – 2022 FY



Management Team

Scott L. Thompson (Chairman, President & CEO)

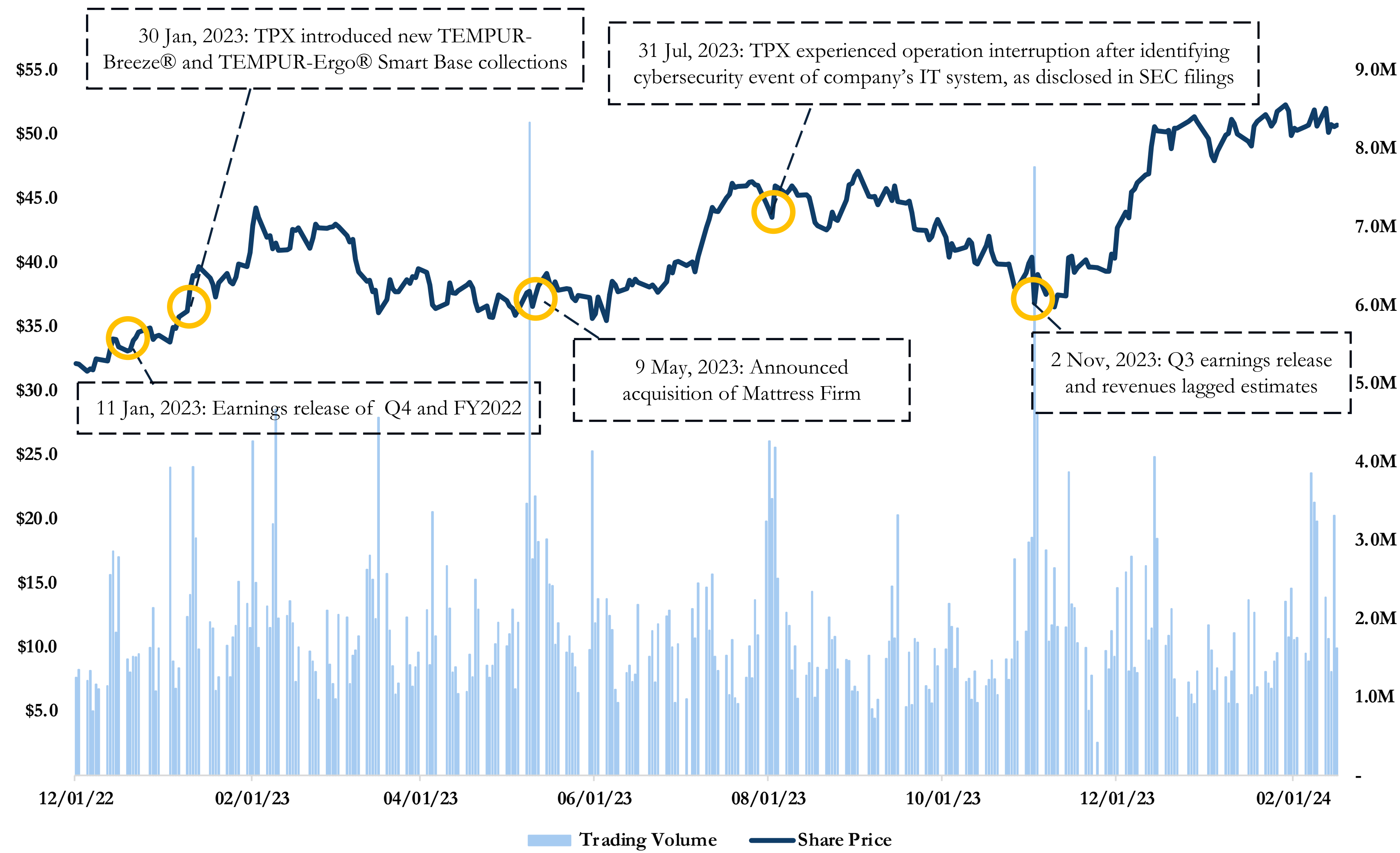
- Joined TPX in 2015; Developed significant DTC businesses, launched innovative products winning the JD Power Award for quality, and expanded into the private label bedding business; Has served on 6 public company Boards and experienced in acquisitions and divestitures.

Cliff Buster (CEO, North America)

- Joined TPX in 2017, where he served as the Executive VP, President U.S. DTC before his current role in 2021; Prior to joining TPX, he was the Chief Financial Officer of Berkshire Hathaway Automotive, Inc., the 4th largest automotive retailer in U.S. with annual revenues of $10B+.

Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

1-Year Stock Price Performance



Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

Sleep Country Canada Holdings Inc.

M&A Strategic Alternatives and Analysis

Company Overview

Overview: Sleep Country Canada Holdings Inc. (TSX:ZZZ) is a leading mattress retailer in Canada. The company offers a wide range of mattresses, bedding accessories, and sleep-related products. Sleep Country has 289 stores throughout Canada and has 5 leading ecommerce platforms. The company operates under the Dormez-vous, Sleep Country Canada, Hush, and Endy retail banners.

Growth Strategy: Sleep Country has a history of horizontal acquisition of smaller sleep specialty retailers. The company acquired Hush Blankets Inc., a D2C ecommerce sleep retailer specialized in blankets, with ~C$21M in 2021, and Silk & Snow Inc., a D2C sleep retailer, in 2023 with ~C$33M.

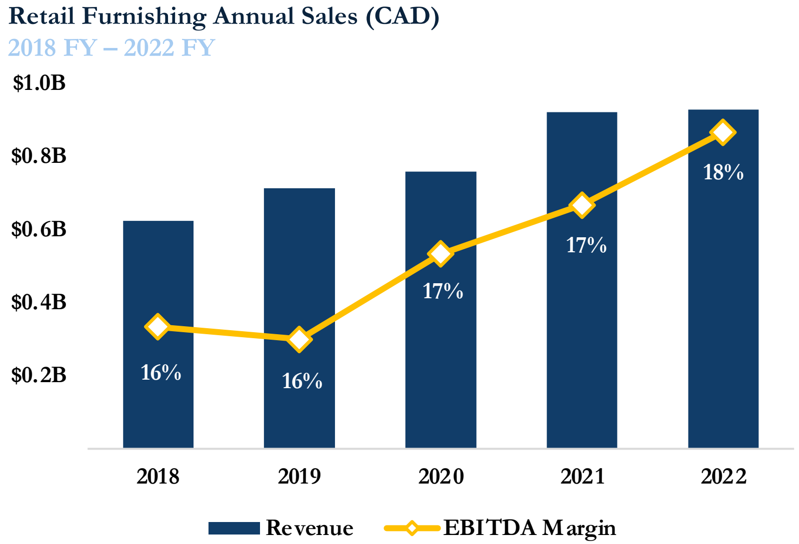
M&A Rationale: The company has strong customer loyalty in the Canadian market, providing great market expansion opportunities and potential synergies. Despite stable financial record with increasing EBITDA margin to 18% as of 2022, the company's overall revenue growth is limited to low-single digits due to geographic limitation.

Key Valuation Metrics

Enterprise Value	1.2B	Revenue (FY2022)	922.5M
Market Cap	932.8M	EBITDA (FY2022)	142.0M
P/E	10.9x	Total Debt/Equity	1.0x
EV/Revenue	1.4x	Total Cash	32.6M
EV/EBITDA	6.6x	Total Debt	455.1M
Operating Margin	15.9%	Current Ratio	0.9x

(Currency in CAD as of 17/02/2024)

Revenue Breakdown



Management Team

Stewart Schaeferz (President & CEO)

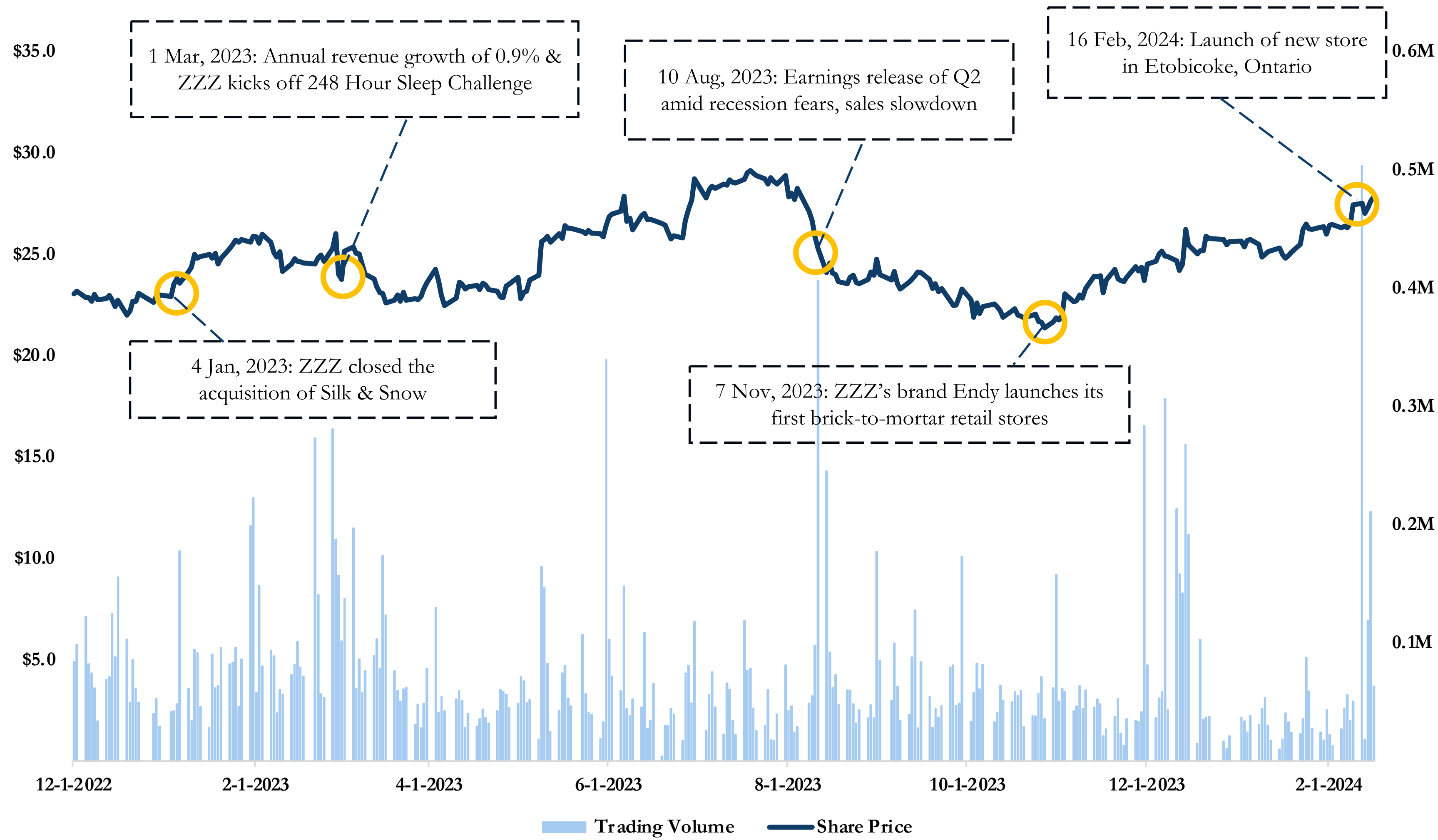
- Has been in the sleep industry for almost three decades; Joined ZZZ in 2006 as President of Dormez-vous, following the acquisition; In his role, he led the Company's growth platforms and oversaw strategic partnerships and M&A opportunities; Was appointed president in 2021.

Craig De Pratto (CFO)

- Oversaw the Accounting, Financial Reporting and FP&A functions, Enterprise Risk Management, ESG, and has been an integral part of ZZZ's M&A activity. Prior to ZZZ, he served as the CFO of Freshii Inc., where he played a pivotal role and successfully guided Freshii through their IPO in 2017.

Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

1-Year Stock Price Performance



Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

Industry Overview

M&A Strategic Alternatives and Analysis

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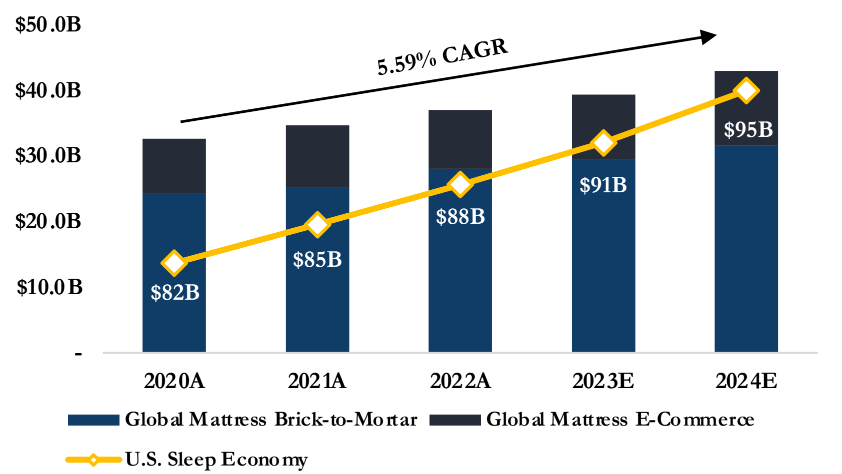
Industry Market Size



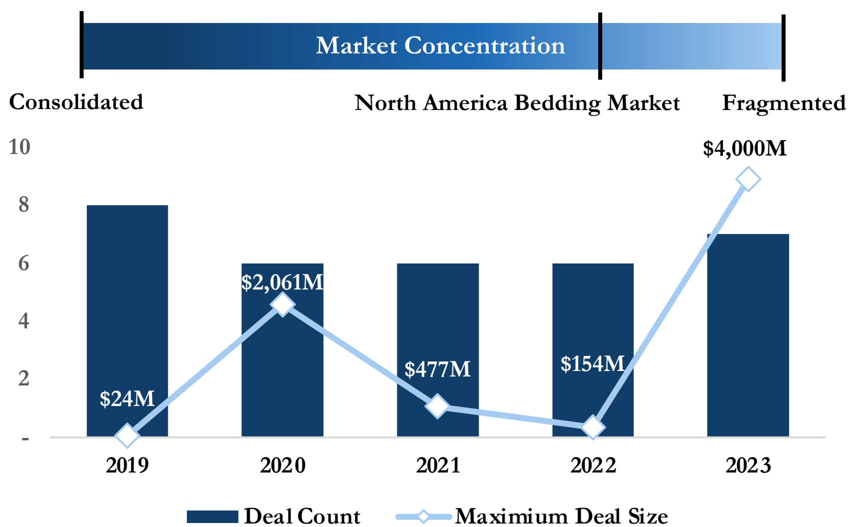
Key Trends

Rising Demand for Luxury and Custom Products: Elevated consumer awareness on health and well-being has fueled a shift towards high-quality and innovative mattresses. This trend underscores prioritization of luxury mattresses that integrate advanced materials and technologies to address specific sleep concerns, such as pressure points and alignment issues.

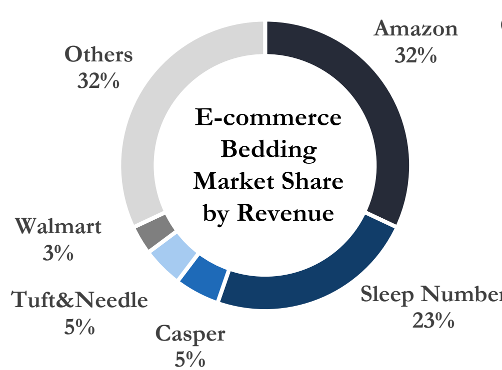
Omnichannel Sales Show Significant Growth Potential: Leveraging DTC sales is set to drive robust growth, with a 7% e-commerce CAGR. While brick-and-mortar stores remain relevant, consumer behavior is shifting towards online research before visiting physical stores. This underscores the need for a strong online presence and optimized DTC channels to capture market share.

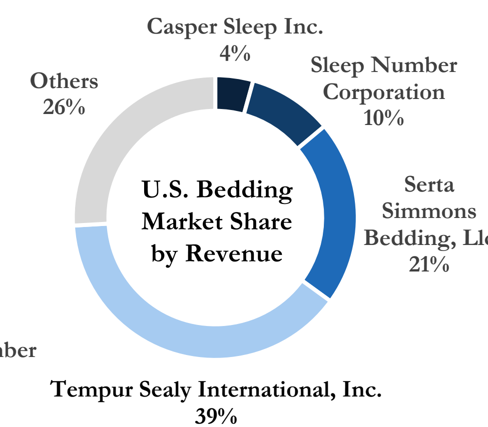
Shifting Consumer Tastes towards Sustainable Mattresses: Market research highlights a significant opportunity, with two-thirds of consumers willing to pay more for mattresses produced through environmentally sustainable practices. Additionally, 40% of buyers are open to paying up to a 10% premium for mattresses incorporating eco-friendly practices or materials.

M&A Activity



Competitive Landscape





M&A Rationale

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Sleep Country (ZZZ) Rationale

Gain U.S. Market Exposure: ZZZ primarily focuses on its local market of Canada, thus its operation is limited in Canadian market. ZZZ has actively seeking international market expansion opportunities in the North American and European sleep space, through exclusive partnerships with Purple Innovation, Casper Sleep Inc., Simba, and Malouf. TPX's established brand name will help ZZZ in raising brand awareness.

Improve Manufacturing and Material Sourcing Efficiency: Streamlines ZZZ's operations and enhance supply chain management, resulting in operational efficiencies. Following TPX's implementation of global enterprise resource planning (ERP) system, ZZZ is expected to expand capacity, diversify supplier base, and improve vendor and customer communications.

Boost Omnichannel Sales: Accelerates ZZZ's global omnichannel strategy, enabling a seamless consumer experience. TPX has a diversified retail partner base and growing direct business, with the largest pillar of 26,000 third-party retail stores while operating 700 TPX brick-to-mortar stores.

Tempur Sealy (TPX) Rationale

Strengthen Revenue Diversification: In FY2022, 73% of TPX's revenue comes from the U.S. market. The acquisition of ZZZ, with its dominant 37% Canadian mattress market share, will help diversify TPX's revenue stream geographically and reduce risks rising from high sales concentration. Also, the transaction facilitates TPX's product launching plan in international segment.

Strategy Alignment in Product Innovation: Enhances consumer loyalty through new product development, facilitating consumer-centric innovation. Both companies are expanding their high-end portfolios. TPX is completing its rollout of premium portfolio of "Steams & Fosters" in North America going forward, while ZZZ introduced its ultra-premium brand "The Rest" by end of 2023. The portfolios are complimentary additions to TPX's leadership position.

Horizontal Acquisition: Reliefs future competition in Canadian bedding market to helps TPX gain a larger market share. The transaction will create potential new product bundles among brands and redirect investments into other markets to attain previously unreachable customers.

The acquisition will strengthen TPX by enabling revenue diversification from brand momentum and loyal customer base of ZZZ, and accelerates ZZZ's omnichannel sales, increase production efficiency, resulting in cost and revenue synergies for both companies.

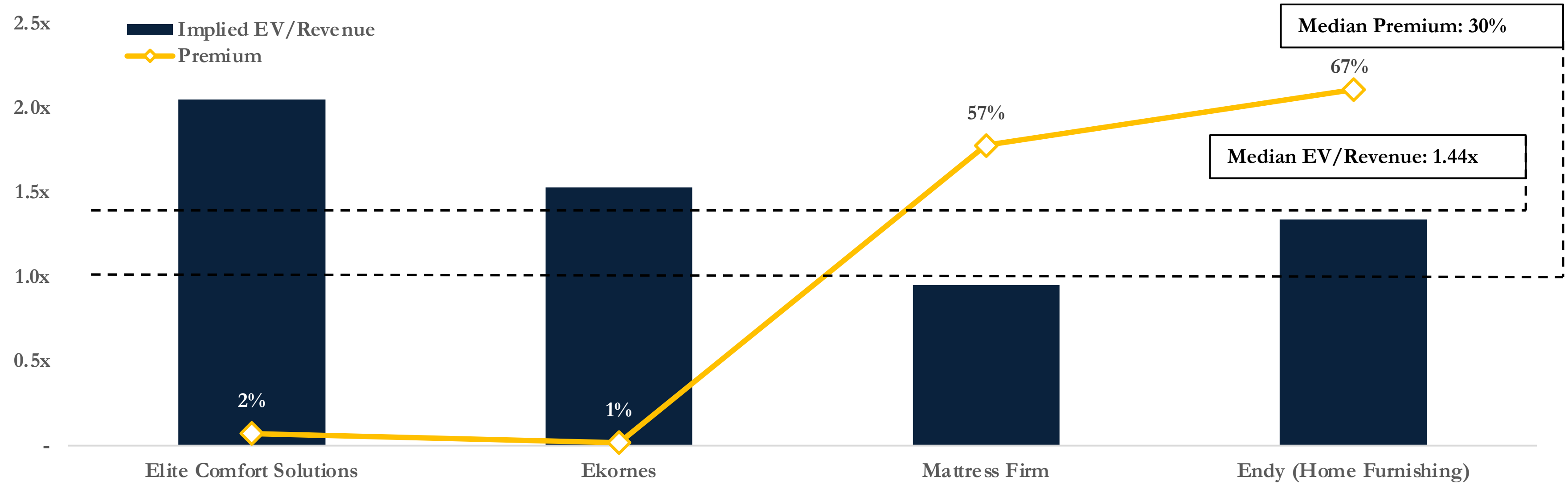
Cost Synergies

- Marketing and Advertising Effects
- Supplier Chain & Product Procurement
- Retail Channel Consolidation

Revenue Synergies

- Geographic Diversification
- Cross-Selling Opportunities
- Expanded Product Offering and Innovation

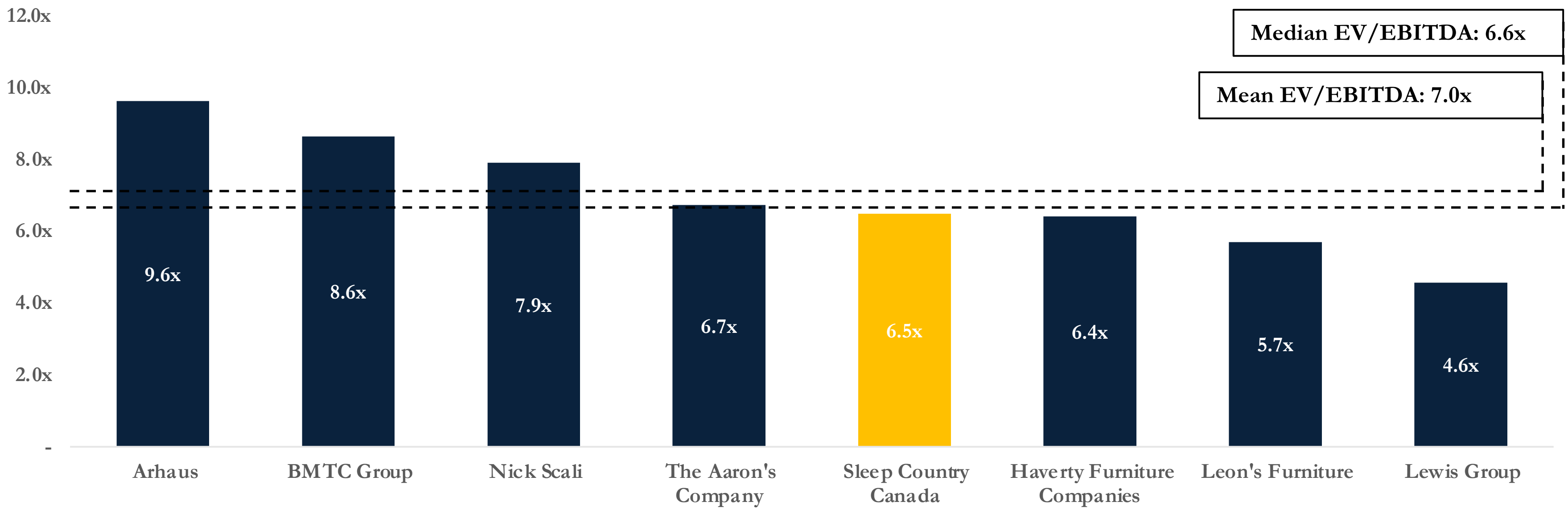
Precedent Transactions Analysis



Elite Comfort Solutions	Ekornes	Mattress Firm	Endy
C$1.7B acquisition by Leggett & Platt	**C$820.0M** acquisition by QM 曲美家居	**C$5.3B** acquisition by Tempur Sealy	**C$89.0M** acquisition by Sleep Country
Jan 2019	**Oct 2019**	**May 2023**	**Oct 2023**

Applying the median **implied EV/Revenue** of **1.44x** to Sleep Country Canada's LTM Revenue of C$923M implies a market capitalization of **C$907M**.

Comparable Company Analysis



	Arhaus	BMTC	Nick Scali	Aaron's	Havertys	Léon	Lewis Group Ltd
Equity Value	$1.8B	$345.7M	$815.2M	$328.5M	$593.8M	$1.0B	$122.3M
Enterprise Value	$2.0B	$351.6M	$967.4M	$973.7M	$680.2M	$1.3B	$196.9M
LTM Revenue	$1.3B	$439.4M	$294.2M	$2.2B	$931.9M	$1.8B	$412.1M
LTM EBITDA	$193.4M	($8.8M)	$88.1M	$212.4M	$100.0M	$113.8M	$42.6M

Sleep Country Canada is trading at a discount with an **EV/EBITDA multiple of 6.5x** compared to the **comparable peer group's median of 6.6x** and **mean 7.0x**. The mispricing potentially signals a compelling transaction opportunity for Tempur Sealy to acquire Sleep Country's business.

Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

Free Cash Flow Forecast

	Fiscal Year Ending December 31					
	2022A	2023E	2024E	2025E	2026E	2027E
Revenue	**$687.2**	**$728.4**	**$768.5**	**$806.9**	**$847.3**	**$889.6**
Annual Growth (%)		*6%*	*5%*	*5%*	*5%*	*5%*
EBITDA	**$155.8**	**$145.7**	**$153.7**	**$161.4**	**$169.5**	**$177.9**
Margin (%)	*23%*	*20%*	*20%*	*20%*	*20%*	*20%*
EBIT	**$107.2**	**$112.3**	**$85.9**	**$118.6**	**$139.9**	**$155.5**
Margin (%)	*16%*	*15%*	11%	*15%*	*17%*	*17%*
Less: Tax expense	(26.2)	(25.6)	(19.6)	(27.0)	(31.9)	(35.5)
Add: Depreciation and amortization	48.6	33.4	67.8	42.8	29.5	22.4
Less: Capital expenditures	(5.6)	(10.0)	(20.3)	(12.8)	(8.9)	(6.7)
Less: Change in net working capital	-	-	-	-	-	-
Unlevered Free Cash Flow	**$124.0**	**$110.1**	**$113.8**	**$121.5**	**$128.7**	**$135.7**
Annual Growth (%)		*-11%*	*3%*	*7%*	*6%*	*5%*

Commentary

Stable revenue expansion fueled by consistent growth in population and the housing market, complemented by a surge in sales through product innovation.

Enhanced EBIT margin attributed to heightened efficiency in supply chain consolidation and optimized COGS requirements, reverting to historically achieved margins.

Sustained capital expenditures at the average historical level of 20%, primarily directed towards expanding manufacturing capacity.

Assumptions: Total revenue synergy of 4% and total cost synergy of 8%, achieved over 5 years.

Implied Value Per Share

Perpetuity Growth Method	
Perpetuity Growth Rate	**1.5%**
PV Sum of Unlevered FCF	583.6
Terminal Value	1,105.4
Enterprise Value	**1,689.0**
Add: Cash	38.3
Less: Debt	455.1
Less: Other EV adjustments	4.8
Equity Value	**1,267.4**
Shares Outstanding	33.5
Implied Share Price	**$37.8**
Current Price	$27.8
Implied Price	**$37.8**
Total Return	**36.0%**

Exit Multiple Method	
EV/EBITDA Multiple	**7.0 x**
PV Sum of Unlevered FCF	583.6
Terminal Value	808.0
Enterprise Value	**1,391.6**
Add: Cash	38.3
Less: Debt	455.1
Less: Other EV adjustments	4.8
Equity Value	**970.0**
Shares Outstanding	33.5
Implied Share Price	**$28.95**
Current Price	$27.82
Implied Price	**$28.95**
Total Return	**4.1%**

Sensitivity Analysis

Perpetuity Growth Rate \ WACC	10.61%	10.11%	9.61%	9.11%	8.61%
1.0%	$ 30.84	$ 28.75	$ 28.75	$ 30.84	$ 35.76
1.3%	$ 30.11	$ 28.10	$ 28.10	$ 30.11	$ 34.82
1.5%	$ 30.11	$ 28.10	$ 28.10	$ 30.11	$ 34.82
1.8%	$ 30.84	$ 28.75	$ 28.75	$ 30.84	$ 35.76
2.0%	$ 32.43	$ 30.15	$ 30.15	$ 32.43	$ 37.83

Terminal EV/EBITDA Multiple \ WACC	10.61%	10.11%	9.61%	9.11%	8.61%
5.0 x	$ 20.85	$ 20.27	$ 20.27	$ 20.85	$ 22.06
6.0 x	$ 17.57	$ 17.06	$ 17.06	$ 17.57	$ 18.62
7.0 x	$ 17.57	$ 17.06	$ 17.06	$ 17.57	$ 18.62
8.0 x	$ 20.85	$ 20.27	$ 20.27	$ 20.85	$ 22.06
9.0 x	$ 27.42	$ 26.68	$ 26.68	$ 27.42	$ 28.95

Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

Accretion/ Dilution Analysis

M&A Strategic Alternatives and Analysis

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Sources and Uses

Deal Structure	80% Equity	20% Cash

Sources of Fund		% of Total
Debt Issued to Acquire Target	151.8	16.7%
Cash used to Acquire Target	39.5	4.3%
Value of Stock Issues to Target Shareholders	717.2	78.9%
Total Sources	**908.6**	***100.0%***

Uses of Fund		% of Total
Stock to Target	717.2	78.9%
Cash to Target	179.3	19.7%
Deal Fees	9.0	1.0%
Finance Fees	3.0	0.3%
Total Sources	**908.6**	***100.0%***

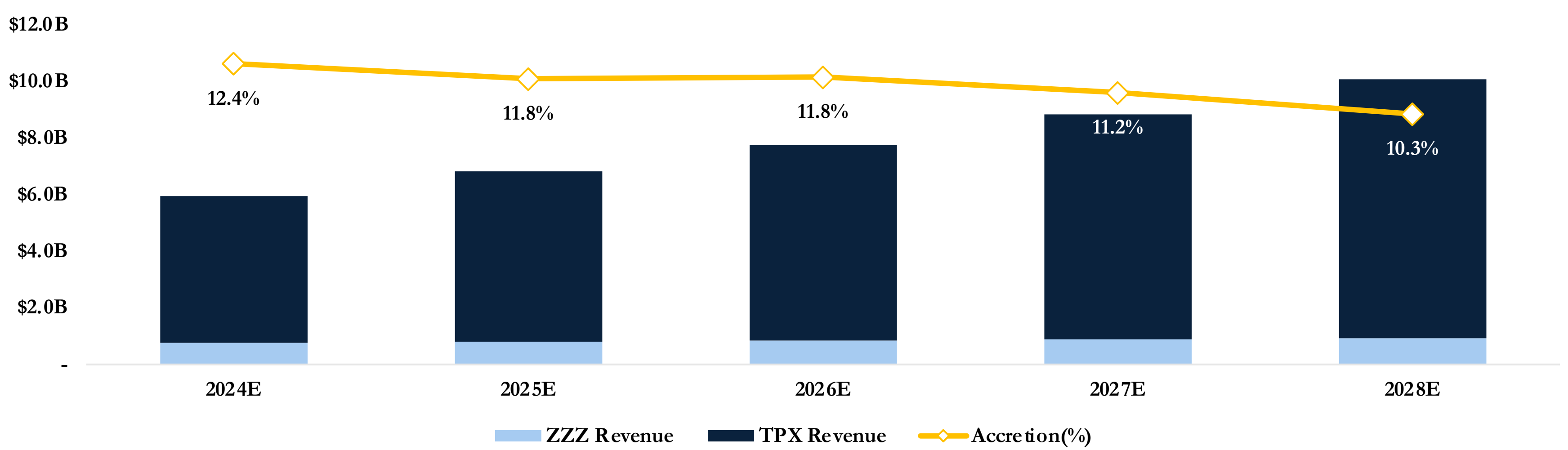
Transaction Structuring

Purchase Premium: With a 30% purchase premium derived from precedent transactions analysis, this acquisition ensures alignment with market dynamics, maximizing value for stakeholders. While lower than Mattress Firm's 57%, it's justified due to their larger U.S. presence, stronger profit margins, and increased potential for cost synergies.

Recommended Financing: It is recommended Tempur complete an 80% equity and 20% cash transaction. This is prompted by insufficient cash reserves on the balance sheet and the unattractiveness of debt in the current high-interest rate environment. Allocating 20% in cash maintains financial flexibility for ongoing operations and future strategic initiatives, ensuring a well-balanced financing structure for the acquisition.

Financing Justification: Tempur Sealy has a relative low cash position and can not afford a full-cash deal. Issuing 80% of the payment in stock leverages Tempur Sealy's equity as a strategic asset, fostering a shared vision and partnership.

Standalone vs. Combined Entity Performance



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Sources: S&P Capital IQ, Bloomberg, Company Filings, Statista, Pitchbook, IBIS World

Strategic Alternatives

M&A Strategic Alternatives and Analysis

Horizontal Integration

Alternative: TPX can pursue acquiring another mid cap companies manufacturing mattress and bedding accessories.

Recommendation: TPX has the strategic potential to diversify its portfolio geographically and in product offerings, tapping into an industry where the top four companies hold a significant 74% of the U.S. market share. Aligning with industry norms, TPX's proactive engagement in M&A activities positions it as a leader in strategic initiatives within the sector.

Potential Acquisition Targets:

Aaron's ARHAUS GROUPE BMTC

Opinion: BMTC Group is the best alternative among the group. The company operates in Canada, dealing in furniture, household appliances, and electronics. It provides a diverse array of household products to a broad customer base. By acquiring BTMC, TPX can expand its product portfolio into other housing retail accessory categories.

Vertical Integration

Alternative: TPX can expand vertically by acquiring its downstream retail channels or upstream suppliers.

Recommendation: Examining vertical integration opportunities, we consider acquiring a retail REIT or an e-commerce platform for retail expansion. Alternatively, exploring textile suppliers aims to eliminate middlemen and enhance cost control. These strategic moves align with our M&A objectives, fostering operational efficiency and market presence.

Potential Acquisition Targets:

FLEXSTEEL ZW ZHONGWANG CULP

Opinion: Culp is the best alternative among the group. The company is a major textile supplier for TPX, specializes in manufacturing and sourcing mattress fabrics globally. Culp can offer TPX the opportunity to enhance sourcing efficiency and reduce production costs through economies of scale, aligning with our M&A objectives for operational efficiency and cost-effectiveness.

Spin-Off

Alternative: TPX can acquire the mattress business of ZZZ and some brick-to-mortar retail stores, if ZZZ can spin-off partially.

Recommendation: Acquiring ZZZ's mattress business allows TPX to efficiently strengthen its market position, focusing on targeted consolidation for increased Canadian market penetration. The ownership of additional brick-and-mortar stores enhances TPX's retail footprint, providing direct customer access and enabling personalized experiences to drive sales in Canada. This aligns with our M&A strategy for strategic market expansion and enhanced customer engagement.

Likelihood: TPX aims to target ZZZ for its complete brand portfolio, avoiding individual franchise acquisitions. In contrast, ZZZ is unlikely to consider spinning off any current brands or retail stores, emphasizing the value of joint synergies and sales efforts. This aligns with our M&A strategy, prioritizing comprehensive brand acquisition and integrated sales efforts.

Joint Venture Creation

Alternative: TPX can strategically partner with hospitality companies, including hotels, resorts, and cruises, to craft exclusive luxury vacation experiences, focusing on collaborative initiatives for premium customer experiences in the hospitality sector.

Recommendation: TPX strategically partners with upscale hotels and cruises to showcase premium products, targeting a broader, affluent demographic and elevating brand prestige. These collaborations extend beyond traditional retail, transforming accommodations into live showrooms, with positive feedback enhancing customer loyalty for both TPX and its hospitality allies. This aligns with our M&A strategy, emphasizing brand exposure and customer engagement in premium markets.

Potential Acquisition Targets: TPX can partner with its existing corporate customers.

Fairmont Marriott Hilton

Risks and Mitigants

M&A Strategic Alternatives and Analysis

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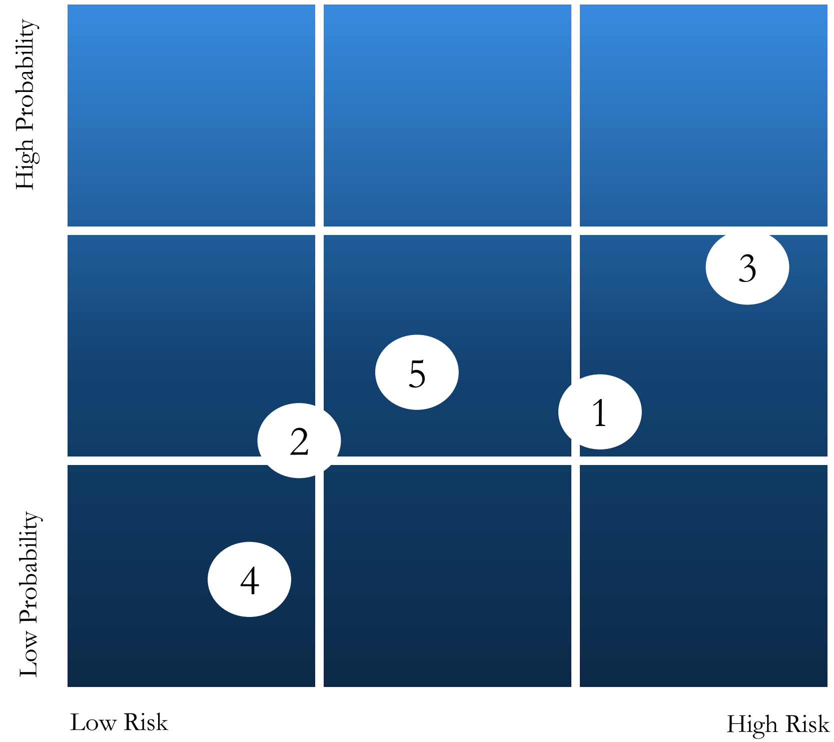
#	Risks	Mitigation Strategies
1	**Regulatory and Compliance Risk**	Tempur Sealy should conduct meticulous regulatory due diligence in both Canadian and U.S. Engage legal experts well-versed in the relevant regulatory landscape to address potential antitrust concerns, considering Tempur Sealy's leading position in the U.S. bedding market.
2	**Financing Risk**	15% of the transaction will be financed through debt, currently subject to elevated costs, presenting a challenge for Sleep Country's immediate cash flow positivity. Striking a balance between ambitious growth strategies and debt repayment may pose considerable complexity in our strategic approach.
3	**Brand Alignment and Positioning**	Tempur Sealy has a proven track record to conduct thorough market research to understand brand perceptions and ensure alignment after acquisitions, which guides the development of a cohesive brand strategy. This strategy aims to maintain or enhance the company's market positioning, employing a phased approach for any necessary rebranding efforts.
4	**Dilutive Transaction**	Given Tempur Sealy's premium stock valuation with a Forward EV/EBITDA ratio of 12.4x, an all-stock transaction holds the potential for an accretion of 8.9%, which indicates likelihood of the transaction being accretive even if synergies fall short of the initial projections.
5	**Integration Shortfalls**	To optimize integration, Tempur Sealy incorporates due diligence team members for efficiency. Include value creation experts, blend Integration Management Office (IMO), and ensure HR representation. Forming this adept team early allows proactive integration planning during due diligence, enhancing efficiency based on insights into the target company.

Risk Matrix



The primary concern for Tempur Sealy lies in brand alignment and positioning risks, pivotal for realizing cross-selling synergies across diverse jurisdictions. With a proactive stance in M&A, Tempur Sealy can effectively mitigate concerns on brand repositioning by streamlining the product offerings gradually. This strategic approach maintains existing customers while expanding its market share.