

FINAL TRANSCRIPT

Indigo Books & Music Inc.

Fourth Quarter Investor Conference Call

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CORPORATE PARTICIPANTS**Janet Eger**

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Heather Reisman

Indigo Books & Music Inc. — Chief Executive Officer

Laura Carr

Indigo Books & Music Inc. — Chief Financial Officer

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PRESENTATION**Operator**

Good morning, ladies and gentlemen, and welcome to the Indigo Books & Music Inc. Fourth Quarter Investor Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, May 27, 2015.

I would now like to turn the conference over to your host, Janet Eger. Please go ahead.

Janet Eger — Vice President, Public Affairs, Indigo Books & Music Inc.

Good morning, and thank you for joining us to review Indigo's fiscal 2015 results. My name is Janet Eger, and I'm the Vice President of Public Affairs. Joining us from Indigo today are the Chief Executive Officer, Heather Reisman, and Chief Financial Officer, Laura Carr.

Regarding the materials for this conference call, we issued the press release after market close yesterday, which can be found at indigo.ca and on SEDAR.

The conference call will be recorded and archived in the Investor Relations section of the Indigo website. A playback of the call will also be available by telephone until 11:59 p.m. on June 3, 2015.

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This conference call may contain forward-looking statements, and to the extent that it does, we refer you to our cautionary statements regarding forward-looking statements in the press release and the MD&A related to this quarter and year.

I would now like to turn the call over to Heather Reisman.

Heather Reisman — Chief Executive Officer, Indigo Books & Music Inc.

Good morning, everybody, and thank you all for joining us today. Laura, our CFO, and I will keep our comments brief so that we can move on to any Q&A that you might have.

We've had a good year, and we're pleased that we finished with both sales and EBITDA growth, turning the corner on what we think was the very challenging transition period that we've come through.

We saw growth in our core book business for the first time since the advent of e-reading, and we saw meaningful growth in our Lifestyle and in our Indigo Kids businesses.

Our full year results confirm that Indigo is now moving out of this transformation stage and the beginning of moving into a real growth mode.

Our customers are responding very positively to Indigo's transformation, something that we feel is really important to understanding the opportunity moving forward. We continue to improve and expand our stores and our online experience.

Employees are motivated and excited with the journey, and in total there's just a good feeling that Indigo is poised for a very interesting stage in our development.

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I'd like to hand it over to Laura Carr, who will make a couple of comments on the financials.

Laura Carr — Chief Financial Officer, Indigo Books & Music Inc.

Thanks, Heather, and good morning, everybody. The results we're talking about today are for the 52 weeks ended March 28, 2015, and the comparative figures are for the 52 weeks ended March 29, 2014.

So I think the key highlight of our full year results is the continued strong revenue growth, so we delivered almost 28 million more in revenue despite offering four fewer large format superstores and four fewer small format stores.

We're pleased with our comparative store sales performance, which showed 6.8 percent growth in our superstores and 0.8 percent growth in our small format stores. And our digital channel, the online business grew strongly, growing by 11.8 percent versus the prior year.

The business growth came from both our newer general merchandise categories, which Heather just mentioned, where we experience double-digit growth in Lifestyle, Paper, and Toys, and also from the growth in our core book business.

The Toys business had an additional boost from the successful launch of three American Girl Specialty Boutiques, which both exceeded our performance expectations and delighted our customers.

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The full year revenue from general merchandise categories grew to 30.2 percent of the total compared to 26.5 percent last year, reflecting our strategy to extend our product assortment beyond our core book offering.

For the year, we improved our margin rate by 0.7 percent and the margin dollars increased by 18.6 million.

Overall, operating, selling, and admin costs decreased by 1.8 million this year compared to last year, and cost reductions were driven by lower occupancy cost as a result of operating lower stores and improved efficiency at our retail distribution centre, offset by some increased management bonus costs.

Overall, we've improved EBITDA by \$20.4 million this year driven by the higher revenues, improved margins, and lower costs. Our full year net loss of 3.5 million represents a reduction in the loss of 27.5 million versus the prior year, and the improvement is driven by the EBITDA improvement of 20.4 million in addition to a reduced tax expense and no (phon) store asset impairment this year.

Finally, I just want to highlight that we continue to have a very strong balance sheet. We ended the year with \$203.2 million in cash, which represents a 45.6 million improvement in our cash position versus the prior year. And that cash performance is improved by business performance and lower working capital.

So now Heather and I'd like to open the call to any questions.

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Janet Eger

Thanks, everyone. To ask a question, please press *, 1. Operator, let's go to the phones.

Q&A**Operator**

Thank you. Ladies and gentlemen, as a reminder, if you do have a question please press *, followed by 1 on your touch-tone phone. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from David McFadgen, Cormark Securities. David, please go ahead.

David McFadgen — Cormark Securities

Hello, everyone. A couple questions. Heather, so you announced three new American Girl stores for this fall and like, well, the Eaton Centre in June. I was wondering if you could comment on the square footage for these stores. Are they going to be similar to what you have right now? Or would they be bigger?

Heather Reisman

They are roughly similar to what we do now. We do about 2,000 square feet. I think one of them might be a little bit bigger, but roughly that's the size of the boutiques we put in. And we found it to be extremely successful.

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David McFadgen

Okay.

Heather Reisman

Extremely successful.

David McFadgen

And so when you look at—assuming these go as planned, you'll have about six—well, you'll have six American Girl stores. What do you see as the potential total footprint for Canada for the American Girl stores?

Heather Reisman

We definitely can see on the drawing board probably growing it to 10, and then we'll see after that.

David McFadgen

Okay. And so would you expect the additional four to be rolled out in, I guess, your fiscal 2017 year?

Heather Reisman

Is that next year?

Janet Eger

Is that next year?

Heather Reisman

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Yeah. That's what we would expect. Yes.

David McFadgen

Yeah. Okay. And then, Laura, just on the working capital there was a nice inflow of cash for 2015. I was just wondering—that was financed by higher payables. I was just wondering for the current fiscal year that you're in right now, do you expect that to reverse? Or you could just hold your working capital position from here and hopefully build cash?

Laura Carr

Yeah. I think there's a small element of timing just from the year-end from accounts payable, but there was a genuine improvement in working capital. So I imagine that that's a partial reversal, but not a full reversal.

David McFadgen

Okay. Okay. And then just lastly, when I look at your print revenue in the fourth quarter it was down about 1.5 percent, but that was probably due to store closures.

Laura Carr

Yeah.

David McFadgen

I was just wondering...

Heather Reisman

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There was something else also because there was at the end of the fourth quarter last year there was a couple of very significant Kids hits. So we're always up and down depending on if there is a huge hit in a particular quarter.

David McFadgen

Okay. Would you be able to tell us what the performance was in your fourth quarter, of the March 2015 quarter, adjusting for the store closures on a same-store basis?

Heather Reisman

What was comp...

Laura Carr

The comp was—I think it was 4.2. Sorry, I'm just going to get it checked, but it was positive. I think it was 4.2 percent comp.

David McFadgen

Yeah. I mean just on the print business. I'm just wondering what...

Laura Carr

It was positive. It was...

David McFadgen

It was up a bit, yeah?

Laura Carr

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But the decline is due to closed stores, not to underlying comp. The trade business was positive comps in Q4.

Heather Reisman

Okay. Good.

David McFadgen

Okay. All right. Okay. That's it for me. Thanks.

Heather Reisman

Thanks, David.

Operator

Thank you. Your next question comes from Bob Gibson, Octagon. Bob, please go ahead.

Bob Gibson — Octagon

Good morning.

Heather Reisman

Hi, Bob. How are you?

Bob Gibson

I'm good. Could you give us a CapEx number for this year?

Laura Carr

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We don't normally give forward guidance on CapEx, so I think you know that we are very conservative and that we want to make sure that we make the earnings to pay for the capital. So we should be cash positive on the assets for—at 0.16.

Bob Gibson

Okay. What about store opening and closings?

Heather Reisman

So we have one store closing, which has been announced, our downtown Robson store in Vancouver, and we are in the market looking for a replacement location for that. That was a store that we inherited in the acquisition of Chapters that was way too large for us, 52,000 square feet, so we're in the market for another store there.

We're opening a new store at Sherway in probably January time frame, and we are actively in the market right now. We're negotiating on another space, so we are now pretty much into the growth mode looking for opportunities to open new stores.

Bob Gibson

Okay. You had been in a closing down the smaller format stores mode...

Heather Reisman

Yeah.

Bob Gibson

Has that stopped?

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Heather Reisman

Yeah. Do we have any that we're closing this year?

Laura Carr

Yeah. We do have some more small format potential closures. They're small revenue and in terms of profitability they're minor. But I think we are reviewing our overall small format strategy to make sure that we can have the right stores in the right locations and looking at the banners that we have for those.

Heather Reisman

Right. We may end up closing two and opening four, so we are actively back in the market, although we have nothing to announce at the moment other than the new Sherway store.

Bob Gibson

Great. Thank you.

Laura Carr

Thanks, Bob

Operator

Thank you. Ladies and gentlemen, as a reminder should you have a question, please press *, followed by 1 on your touch-tone phone.

Janet Eger

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Looks like there's no more questions. Thanks for your time and attention today. We appreciate you calling in, and look forward to reconnecting on a quarterly basis. Our first quarter results will be announced on or around August 4, 2015.

Thanks again for your support, and have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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