

## **FINAL TRANSCRIPT**

### **Indigo Books & Music Inc.**

#### **First Quarter Results Conference Call**

Event Date/Time: August 9, 2017 — 10:00 a.m. E.T.

Length: 13 minutes

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## CORPORATE PARTICIPANTS

### **Hugues Simard**

*Indigo Books & Music Inc. — Chief Financial Officer*

### **Heather Reisman**

*Indigo Books & Music Inc. — Chief Executive Officer*

## CONFERENCE CALL PARTICIPANTS

### **Bob Gibson**

*PI Financial — Analyst*

### **David McFadgen**

*Cormark Securities — Analyst*

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## PRESENTATION

### Operator

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

Following the presentation, we will conduct the 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, August 9, 2017.

I would now like to turn the conference over to Hugues Simard. Please go ahead.

**Hugues Simard** — Chief Financial Officer, Indigo Books & Music Inc.

Good morning, everyone. My name is Hugues Simard. I'm the Chief Financial Officer of Indigo. And thank you for joining us to review our first quarter fiscal 2018 results.

Also on the line is our CEO, Heather Reisman, but Heather is travelling and the connection isn't terribly good, so she is on the line, but I will answer your questions if that's okay. And then I'm sure Heather will add some colour as the connection—if the connection gets a little better.

So regarding the materials for this conference call, we issued the press release after market close yesterday evening, and it can be found at [indigo.ca](http://indigo.ca) and on SEDAR.

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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. Eastern Time on August 16th of this year.

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

So first I'd like to talk about the financials, and then we'll go into some of our strategic initiatives. So revenue, as you saw from—hello?

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

Go ahead. Go ahead.

**Hugues Simard**

Okay. Revenue increased ... So revenue for the quarter increased 6.8 percent and comparable sales grew by an impressive 5 percent this quarter, which is on top, as you know, of last year's already strong growth which was close to 8 percent.

Our retail operations delivered solid results, and our online performance again surpassed our expectations.

From a category standpoint, general merchandise continued its double-digit growth fuelled by Lifestyle, Paper, and Toys, which performed exceptionally well, while books remained

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healthy and showing growth over last year, despite there wasn't any this quarter any major launch this quarter. But even despite that, we managed growth on books.

In terms of our store, as you know, we successfully launched our Sherway Gardens new concept store in Toronto last year, and following the success of that store we rolled out our new store concept in Oshawa and Ancaster this past quarter. And both stores, I am happy to report, are showing tremendous results both on top line and on operational metrics.

This is excellent performance, it's a really good start to the year, and we're all energized. And we will keep up the momentum. We've got a well thought-out plan for the rest of the year, and we will continue to deliver the best customer experience in the market.

In terms of more detail, if I can now get into a little bit more detail in terms of our financial statements. For the 13 weeks ended July 1, 2017, we recorded revenues of 206.3 million, which was 13.2 million more than last year. That is the 6.8 percent growth that I referred to earlier and the 5 percent growth comparable on—and comparable stores.

In terms of channels, both channels reported a very, very, very, very high growth. In terms of retail, the growth was higher than what we had expected, and online we are maintaining double-digit growth there as well. Online was 20.5 percent growth, and the retail growth was in the 3.5 percent growth.

In terms of categories, we continued to record double-digit growth, as I said earlier, in general merchandise. The strongest channel—the strongest products within the general

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merchandise were Lifestyle, Toys, and then Paper. Core trade books, as I said, remained healthy with growth over last year.

In terms of margin, margin increased by \$8 million for the quarter, which represents a margin rate improvement of 1 percent, and that's due mostly to higher sales volume in retail and online, as I said earlier, and also higher gift card breakage.

In terms of costs, overall the operating, selling, and administration costs increased \$3 million compared to last year, and that was obviously driven by higher volumes. But also the important point here, I think, is that these costs decreased as a percentage of sales, showing our focus on maintaining controlled costs within the Company.

For the year, adjusted EBITDA improved by \$6.2 million, which was driven by higher revenue and margin, and we achieved breakeven for the quarter.

After interest, income taxes, and depreciation, the net loss for the first quarter was 5.3 million compared to a net loss of \$9 million last year.

Finally, looking at the balance sheet, it continues to be very strong. We ended the year with close to 200 million, 196.7 million in cash and short-term investments, which is \$20 million more than last year. And of course, I'll remind you that we still have no debt on the balance sheet.

At this point, I'd like to open the call for questions.

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## Q&A

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**Operator**

Thank you. Ladies and gentlemen, should you have any questions, please press \*, followed by 1 on your touch-tone phone. If you wish to decline from the polling process, please press \*, followed by 2. If you are using a speakerphone, please lift the handset before pressing any keys.

And your first question is from Bob Gibson from PI Financial. Bob, please go ahead.

**Bob Gibson — PI Financial**

Good morning. Great numbers.

**Hugues Simard**

Good morning, Bob. Nice to talk to you.

**Bob Gibson**

Your small format stores beat the superstores on a same-store sales basis. I rarely see that. Can you give me a little colour on what happened?

**Hugues Simard**

They're very ... They're actually very similar. On the comparable the issue is that there were fewer stores open. We were renovating a few more superstores. So on the comparable when we—on the comparable basis it shows slightly lower growth on the superstore versus the small format. But if you really—to last year it's roughly the same 3.5 percent growth in all stores.

**Bob Gibson**

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Okay. Let's follow up on that. How many stores do you think you're going to be renovating this year?

**Hugues Simard**

We have a very aggressive—I mean, we're focusing on superstores. I mean, we have a dozen other stores that are in line for renovation. We have more for next year. So there's going to be close to 20 stores that are going to be renovated within the next 12 months.

**Bob Gibson**

Okay. Great. And can I get a little more colour on Unplug Meditation and why you made the investment?

**Hugues Simard**

Unplug Meditation is in our view—oh, I'm sorry. I think Heather wants to make a comment on Unplug. Can you try again, Heather?

**Heather Reisman**

It was small—if you can hear me—it's a small investment (unintelligible) as we explore certain activities that we might bring into our large format stores. We have an interest in the whole meditation area, and so this is just a little exploration concept for us.

**Bob Gibson**

Okay. Great. Thank you very much.

**Hugues Simard**

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Is there anything else, Bob?

**Operator**

Thank you. And your next question is from David McFadgen, Cormark Securities. David, please go ahead.

**David McFadgen — Cormark Securities**

Hi. I couldn't hear Heather very well there, so I'll just—did she say that you want to bring in some of that product into the stores—

**Hugues Simard**

Yeah—

**David McFadgen**

—on the meditation side?

**Hugues Simard**

Yes. Exactly. I think she mentioned that it's—

**Heather Reisman**

We're just—

**Hugues Simard**

I'll let you go ahead, Heather. Perhaps we can hear you better now.

**Heather Reisman**

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It's just a small investment. It's something we're exploring on a completely preliminary basis, and I don't think there's—we're constantly exploring ideas, and that's what I would say about this. We do think that meditation will be a big trend. We see it in the purchase of books in this area. And so we are exploring the potential of advancing deals in our large (unintelligible) activity.

So that's all we can say about it right now. It's just one of our typical explorations.

**David McFadgen**

Okay. Maybe I could just ask a question on the gross margin. So I see that the gross margin actually improved a little bit—

**Hugues Simard**

Yeah.

**David McFadgen**

—in the quarter year over year. On the other hand, your online sales were up 20 percent. So I've always been under the impression that the gross margin on online sales is a bit lower than sales you generate in-store. Maybe the growth on the merchandising side which has higher margin than books is offsetting a lower margin on online? Can you give us any colour on what's driving that improvement in gross margin? And are online sales—or do online sales have a lower gross margin? Just kind of wondering what's happening there.

**Hugues Simard**

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Yes, David, yes. To your point, yes, online sales right now do have a slightly lower margin, the shipping costs being a little bit higher. This is something we're working on and that we will fix over time.

And you're absolutely right, in terms of margin the general margin improved mostly due to the volume in general merchandising. And some of the—as I said when I referred to Lifestyle which had a more than 20 percent growth since last year—the margins were very high on this.

And we also got better, I'll say, on the book side in terms of discounting. We were more efficient at discounting this year and then improved margin on that from—little bit as well.

**David McFadgen**

Okay. And so I saw that you opened two new stores—I think they were in the quarter—based on the Sherway concept. Can you give us—

**Hugues Simard**

Yeah. They were partly, David, they were partly in the quarter; not full quarter for Ancaster and Oshawa.

**David McFadgen**

Right.

**Hugues Simard**

There were only a few weeks of the quarter they were in there. I think I believe it's six weeks.

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**David McFadgen**

Okay. So in the past you've given us an indication on the increase in revenue from moving from that old format to the new format for Sherway. And I was just wondering for those two new stores, have you seen a pretty good increase in revenue now with that new store concept?

**Hugues Simard**

Yeah. These two stores are tracking more than 20 percent above other comparable stores for different—it defers depending on the period. Because, as you know, there was the Harry Potter situation that we were facing that we were comping over the past few weeks, so it depends which weeks you look at it.

But generally speaking, since the launch we're looking at more than 20 percent improvement.

**David McFadgen**

Okay. All right. Okay. I think that's it for me. Thank you.

**Operator**

Thank you. At this time, there are no further questions. I will now turn it back over.

**Hugues Simard**

Okay. Thank you, everyone. Unless, Heather, do you have any other comments? Otherwise, I think we will bring this call to an end.

Thank you, everyone, for joining—

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**Heather Reisman**

Thanks very much, Hugues.

**Hugues Simard**

Thank you. Bye-bye.

**Operator**

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

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