

FINAL TRANSCRIPT

Indigo Books & Music Inc.

FY '19 Q2 Investor Analyst Conference Call

Event Date/Time: November 7, 2018 — 9:00 a.m. E.T.

Length: 12 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



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

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Indigo Books & Music Inc. FY '19 Q2 Investor Analyst Conference Call. At this time, all lines are in listen-only mode.

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

This call is being recorded on Wednesday, November 7, 2018.

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, and thank you for joining us to review Indigo's second quarter fiscal 2019 results. My name is Hugues Simard, and I'm the Chief Financial Officer. Also joining us from Indigo is our Chief Executive Officer, Heather Reisman.

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

This conference call will be recorded and archived in the Investor Relations section of our Indigo website, and a playback of the call will be available by phone until midnight on November 14th.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



This conference call may also 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 in the MD&A created for this quarter.

I will make a few comments on the results for the 13 weeks ended September 29, 2018, and Heather and I will then be happy to answer your questions.

As we discussed last quarter, we have embarked on one of our most ambitious capital investment plans in our history. We had tested over the past few years our new concept stores, and with tremendous success, and we have then rolled them out to an unprecedented number of stores during this quarter.

While this transformation will unlock future growth for the business, as we continue to see impressive revenue and contribution when these new stores come online, there is a temporary impact on sales and profitability.

Total revenue at 216.3 million was down 8.3 million compared to the second quarter of last year. All of this decline, actually more than all of this 8.3 million decline is due to two outside factors: one, the disruption from the store closures and renovations; and two, a onetime gift card breakage revenue adjustment last year resulting from a change in accounting estimates. Excluding these two onetime factors, total comparable sales, including online, were up a modest 0.7 percent, driven by a 7.3 percent growth online, with gains in both books and general merchandise and a continued healthy increase in online traffic.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Margin before operating and home office costs decreased by 12.4 million from last year, most of which resulting from these onetime factors that I discussed, namely the disruption from the stores and the breakage adjustments, and then some also due to deeper discounting and a higher proportion of lower-margin online sales.

Overall, operating, selling, and admin costs increased by 7.6 million this quarter compared to last year, due to the impact of legislated minimum wage increases across the country and a disproportionate cost associated with the Company's expanded distribution facilities, both in Calgary and in Brampton, which are not yet fully operational and have thus not yet reached their economies of scale.

While these strategic investments in reimagining our stores, optimizing our distribution facilities, and improving our online experience are clearly impacting our profitability in the short term, we are confident based on the overwhelming response to our new stores, our sustained growth in online sales, and the efficiencies expected from our enhanced supply chain network that these investments are key in positioning us for future growth.

I also wanted to share that we opened our first US location in October, as planned, at the mall in Short Hills in New Jersey, a milestone that we are very proud of. We have also opened a new flagship store in Vancouver on Robson Street, and have reopened our beloved Bay and Bloor store here in Toronto.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Finally, we continue to maintain a strong balance sheet position with \$120 million in cash and short-term investments while still having no debt.

At this point, I would like to turn it over and ask for your questions, which we will be happy to answer.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the *, followed by the 2.

If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question comes from Bill (sic) [Bob] Gibson from PI Financial. Please go ahead.

Bob Gibson — PI Financial

Good morning, everybody.

Hugues Simard

Hey. Good morning, Bob. I didn't know you were Bill this morning, but—

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Bob Gibson**

Yeah. Today. You know, we got to change the names up every time. Okay. So the big question, of course, is any thoughts on how many renos you might do next year?

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

It's Heather here. I would just weigh in and say we will probably do fewer next year. Just depends. We need to absorb a fair amount of this into the system.

So right now, the plan is we do have a couple on the list for next year, and a slightly more modest program while we absorb all of what was going on this year.

Bob Gibson

Okay. You noted in the cost of sales that there was some deep discounting as you moved through unproductive inventory. Can I get some colour on that? And how does that sit?

Heather Reisman

Yeah. Two things. Because we had this major program, we originally anticipated when we were doing the planning for the program, we originally anticipated that we would be able to get many more of the stores open around the July period. But it turned out for all kinds of reasons—different by location—construction issues, major delays in city permits, things that were not normal to be expected, a lot of the stores opened, or a good number of them got opened quite a bit later than we anticipated. In some cases it was landlord construction was delayed beyond what they originally told us. There were just ... it was just a series of issues.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We had bought inventory for all of these stores, and that inventory then had to get moved through our system. So it had an impact. The over-inventory had a very meaningful impact on it.

There will be some of it. Some of it will still move into this third quarter. We just opened a slew of stores in the last couple of weeks, so it will have some impact in the third quarter. And then we should be pretty much through the problem.

Bob Gibson

Okay. Good. It looks like you still have working on some renos that will be finished—

Heather Reisman

Fourth quarter.

Bob Gibson

—in—yeah.

Heather Reisman

Yeah. Exactly.

Bob Gibson

How do you handle ... sorry, how do you handle that over the Christmas rush?

Heather Reisman

Well, the fourth quarter are actually moves; that is, we're moving from one location to another. So we'll stay in our old location for Christmas, and then move across after Christmas.

Bob Gibson

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Oh, okay. That's good.

Hugues Simard

Yeah. There won't be renos during the Christmas time, Bob, just to be clear. We're opening another five stores between—in the next few weeks.

And then as Heather said, then we've got a few more, but we'll wait until Q4 to open these.

Bob Gibson

Okay. Beauty. And then lastly, free promotions seem to be costing you a bit. What are your thoughts on that going forward?

Heather Reisman

You're talking about online? Or in-store?

Bob Gibson

Online shipping.

Heather Reisman

Yeah. Online shipping. Look, there's no question that it's a competitive battle out there. And we've put a big focus on sustaining our customers. So every now and then that will happen.

We are looking at a number of things to mitigate the cost. We just launched our first test of click- and-collect, which allows the customer to literally find the items and pick them up in-store. That gets rolled out next—it's just in, I don't know, eight or nine stores as we make sure that it

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



works, but that gets rolled out fully in fourth quarter of next year. And that is a major initiative to mitigate the need for that kind of promotion.

But it is competitive

Bob Gibson

Yeah. Definitely, definitely. So, sorry, the last—

Heather Reisman

We've done two things, right? This year we tested the click-and-collect, which rolls out, as I say, in the fourth quarter. We actually also opened our Calgary warehouse. And the Calgary warehouse until through Christmas will operate to support retail, but again, starting in January that will operate—that will support online as well. And that takes a huge burden off distribution costs to the west of Canada.

Bob Gibson

Perfect. And can you—

Heather Reisman

This has been a year of a lot of very significant amount of investment in the Company to set ourselves up.

Bob Gibson

Yeah. Definitely. Sorry, lastly, how—for those who haven't seen it, how might the New Jersey store compare to, say, Sherway Gardens?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Heather Reisman**

Well, the New Jersey store is the next generation of sort of the evolution of Sherway Gardens. But if you visit the Bay and Bloor store in Toronto, which it's fully operating; it's still a little bit—the building is still under construction. But the New Jersey store, although on one floor, looks more like the Bay and Bloor store. So it's our newest model.

Bob Gibson

Okay. Great. Thank you very much, guys.

Heather Reisman

Okay. Terrific. Thanks.

Hugues Simard

Thanks, Bob.

Operator

Ladies and gentlemen, as a reminder should you have a question please press the *, followed by the 1.

There are no further questions at this time. Please proceed.

Hugues Simard

Okay. Well, thank you, everyone, for your time this morning. We appreciate you calling in, and look forward to reconnecting on a quarterly basis.

Our third quarter results will be announced on or about February the 5th of next year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



So I thank you again on behalf of Indigo, and have a good day.

Heather Reisman

Thanks. Hugues, thank you.

Hugues Simard

Thanks.

Operator

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

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »