

FINAL TRANSCRIPT

Indigo Books & Music Inc.

Fourth Quarter and Year-End Results Conference Call

Event Date/Time: May 29, 2018 — 5:30 p.m. E.T.

Length: 11 minutes

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May 29, 2018 — 5:30 p.m. E.T.

Indigo Books & Music Inc. Fourth Quarter and Year-End Results
Conference Call

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

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Indigo Books & Music Fourth Quarter and Year-End Results Conference Call.

All lines have been placed on mute to prevent any background noise. We will begin 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 Tuesday, May 29, 2018.

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

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

Good evening, and thank you for joining us to review Indigo's fiscal 2018 results. My name is Hugues Simard, and I am the Chief Financial Officer.

Our Chief Executive Officer, Heather Reisman, is not with us right now. She might come in a little bit later in the call.

Regarding the materials for this conference call, we issued the press release after market close today. It can be found at 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. on June the 5th, 2018.

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 the MD&A related to this quarter and year.

I will make a few comments, and then open the lines to answer your questions.

The results we are discussing today are for the 52 weeks ended March 31, 2018. Comparative figures have also been provided for the 52 weeks ended April 1, 2017.

First and foremost, I should say how delighted we are with the continued strength of our top line performance. On the heels of breaking the \$1 billion mark last year, we posted another record year for revenue with an 18th straight quarter of year-over-year sales growth and an increase of 59.6 million, nearly \$60 million, over last year.

Comparable sales continued to grow by an impressive 6.2 percent. Specifically, retail revenue was up 4 percent in superstores and up 2.4 percent in our small formats.

We also delivered double-digit growth in online sales, which increased by another 19.3 percent this year. Digital sales channels have always been an important area of growth, and we continue to invest in this area to unlock further opportunities for this business.

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We achieved double-digit growth in general merchandise in the year, with lifestyle and toys performing particularly well.

Our core book business experienced a slight decline, but that's a solid performance as we cycle over last year's blockbuster Harry Potter release.

Clearly this excellent top-line performance speaks to the success of the Company's focus on being a truly superior gifting destination.

Margin dollars increased by 21.1 million due to higher sales volumes, and margin rates declined by 0.5 percent this year, as there was higher penetration of lower-margin online sales and higher discounting on slower-moving holiday product post-seasonally.

Overall, operating, selling, and administration costs increased by 18.3 million compared to last year, largely driven by higher sales volume, as well as investments in our distribution centres, and costs associated with the transformation of our retail and digital platforms.

For the year, adjusted EBITDA improved by \$2.8 million. This was enabled by top-line growth and partially offset by downward pressure on margin and increased operating cost to support strategic areas, as I mentioned earlier.

A change in accounting estimates for breakage also contributed to some EBITDA improvement.

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On a pretax basis, net earnings were \$30.5 million this year compared with \$29 million last year. Net earnings of \$21.8 million included \$8.7 million of primarily noncash tax expenses, which was relatively consistent with the \$8.1 million of tax expenses recognized last year.

Our balance sheet is still very strong, as we embarked on a period of higher capital investment to support our transformation strategy. We ended the year with 210 million in cash and short-term investments, a 20 million decrease from last year which was mostly due to higher capital investments, and of course we still have no long-term debt.

In addition to strategic and financial metrics, which we continued to make strides in, our employee engagement scores are at an all-time high. It is an exciting time at Indigo, and we are proud of our team's work that has led to our accomplishments in fiscal 2018.

For the fourth year in a row, Indigo was recognized as a top retail employer brand to work for by Randstad Canada. And recently, Indigo was also voted one of the best companies to work for in Ontario by Indeed, a leading search engine for job listings.

Finally, our net promoter score, a key measure of the strength of our brand, continues to break company records at an all-time high of 76, which speaks to the excellence of our retail experience.

Looking forward, we're continuing, in fact we're accelerating, our journey to drive a customer-inspired retail transformation by investing in our reimagined cultural department store

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concept, which has been met with resounding success in the 10 stores that we've transformed so far.

We also have ambitious plans to further enhance our digital platform, build a truly superior gifting experience, and continue to improve our operational efficiency.

At this point, we would like to open the call for any questions. And Heather Reisman is now with us, has joined us, so we're here to answer your questions.

Operator, you can open the lines.

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press *, followed by 1 on your touch-tone phone. If you're using a speakerphone, please lift your handset before pressing any keys. One moment, please, for your first question.

Operator

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

Bob Gibson — PI Financial

Good afternoon.

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

Hi, Bob.

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Hi, Bob.

Bob Gibson

Can I just get some colour on the fourth quarter, specifically comp store sales?

Hugues Simard

Yes. Absolutely. The stores had a comp of 5.3 percent in retail and total comp of 6.2 percent.

Bob Gibson

And what about between super and small format?

Hugues Simard

It was 6 percent on the superstores and 3 percent on the small formats.

Bob Gibson

Okay. And how should I be looking at distribution costs going forward?

Hugues Simard

Well, clearly, I mean we're investing, right? As you know, as you've read, we have a new distribution centre in Calgary, we have expanded our distribution centre in Brampton, and we are getting more efficient. So I think you should look at it that in dollars, of course, as our volumes are increasing, as our online business is increasing and our retail business is increasing, of course in dollars it'll go up, but we will be more efficient with it.

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So I think this year we should look at some higher productivity in our distribution centre.

Bob Gibson

Okay. So the percentages should be trending down?

Hugues Simard

Correct.

Bob Gibson

Okay. Perfect. And what about the minimum wage situation?

Hugues Simard

That's a good question. I mean, this is something we embraced, honestly, to be honest with you, because we didn't react like many other retailers did. And we saw this as an opportunity to really look at how we are operating, both in our stores and in our distribution centre.

And so far, we've been able to mitigate the net impact of this quite successfully, so. And we intend to continue as such and to do so.

Bob Gibson

Perfect. And then lastly, maybe an update on the US store?

Hugues Simard

We're still on track. We're still on track to open the US store during the summer, as we had announced.

Heather Reisman

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I think late August, early September. Yep.

Hugues Simard

Yep.

Bob Gibson

Okay. And any thoughts to more stores in the States?

Heather Reisman

Well, first we're going to get this one launched and see what we learn and what the reactions are and how things are going. We intend to do this in the way that we've done almost everything, which is we test, we learn, and then we go.

Bob Gibson

Okay. And is it going to be called Indigo?

Heather Reisman

Yes. It is.

Bob Gibson

Perfect. Thanks so much.

Hugues Simard

Thanks, Bob.

Operator

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

There are no questions at this time. Please proceed.

Hugues Simard

Okay. Well, as there are no further questions, we thank you for your time and attention today. We appreciate you calling in, and look forward to reconnecting with you on a quarterly basis.

Our first quarter results will be announced on or around August the 8th.

And we thank you again for your support. And have a good day—have a good evening.

Thank you.

Operator

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

Have a great day.

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