

Indigo Books & Music Inc.

Second Quarter Fiscal 2021 Financial Results

November 4, 2020 — 9:00 a.m. E.T.

Length: 11 minutes

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CORPORATE PARTICIPANTS

Craig Loudon

Indigo Books & Music Inc. — Chief Financial Officer

Heather Reisman

Indigo Books & Music Inc. — Chief Executive Officer

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Indigo Books & Music Financial Year 2021 Q2 Analyst Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you need assistance, please press star zero for the operator. This call is being recorded on Wednesday, November 4, 2020.

I would now like to turn the conference call over to Craig Loudon. Please go ahead.

Craig Loudon — Chief Financial Officer, Indigo Books & Music Inc.

Good morning and thank you for joining us to review Indigo's second quarter fiscal 2021 results. My name is Craig Loudon and I'm the Chief Financial Officer. Joining us from Indigo today is the Chief Executive Officer, Heather Reisman.

Regarding the materials for this conference call, we issued the press release yesterday. It 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. Eastern Time on November 11, 2020.

This conference call may 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.

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

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

Good morning, everyone.

This quarter, notwithstanding the fact that we are still operating in a COVID environment, we delivered year-over-year revenue growth thanks to an increasingly strong omnichannel experience, our customers' unwavering affinity for our brand, and the hard work and dedication of our team. Since our last update, forward momentum has continued, delivering exceptionally strong e-commerce results with online sales more than doubling compared to the same quarter last year. Our customers were happy to find our stores open but continued to embrace our digital experience as well.

Retail is experiencing a steady recovery, which is great, but traffic remains well below historical levels with the result that sales are still not where they were pre-COVID. Our downtown stores, generally our biggest contributors, both in sales and profits, continue to be particularly impacted by changes in work habits with most downtown cores experiencing very limited activity compared with normal times. All this means that the growth we delivered feels quite exceptional for us.

During the quarter we sustained the new customers that we gained during the period when our stores were fully shut down and we were able to meaningfully increase our paid loyalty sign-ups. We

launched an industry-leading click-and-collect express pickup service as well as a partnership with Instacart. These additional channels allow us to meet our customers' needs however they wish to shop, essentially providing them with have-it-your-way access channels.

The click-and-collect express pickup initiative did begin well before COVID, but it will be particularly valued now given customers concerns about being in stores and our own need to metre the number of people in a store at any given time. We also look forward to this service taking pressure off our store teams during the holiday period when they are normally chockablock full.

This quarter we introduced our new proprietary home brand, Oui, under the direction of our Chief Creative Officer, Nathan Williams. Although it is just the beginning of our ambition for this brand, we were pleased to experience a very positive response from customers, well over-achieving our sales target and, in some cases, our inventory. The book side of our business also remained strong and it was great to learn during this quarter that the long-awaited book by Barak Obama will be available for the third quarter, our holiday period.

All in all, we continue to take the long view of our business, focusing on both how we meet the customer and our overall economics. On the economic side, COVID has, without doubt, added cost in a number of ways, but we know this is temporary. At the same time, we continue to work on underlying productivity opportunities that will impact profitability over the longer term.

In terms of how we see the future unfolding before us, we believe, as do others who we respect, that the pandemic will only serve to accelerate underlying changes in customer values and behaviour that were already gaining momentum pre-COVID; in particular, an accelerated shift to online shopping, to an

interest and concerns with sustainability, to social issues and with personal wellness and then, finally, a desire to experience work both at home and at the office. Each of these trends has been and continues to influence what we do and how we approach every aspect of our business.

With a clear focus, a healthy balance sheet, and no outstanding debt, we are confident we will emerge from this period stronger than ever.

Craig Loudon — Chief Financial Officer, Indigo Books & Music Inc.

Thank you, Heather.

The results we are discussing are for the 13 weeks ended September 26, 2020. Comparative figures have been provided for the 13 weeks ended September 28, 2019.

Revenue grew \$1.9 million to \$205.3 million in the second quarter compared to the same period last year. This growth was driven by the exceptional e-commerce results Heather discussed. The Company also noted steady recovery in the retail channel after COVID-19 temporary store closures in the first quarter.

As a result of temporary store closures from COVID-19 and strict social distancing requirements limiting capacity in stores upon reopening, we believe that comparable sales, which in the past has been a key performance indicator, is no longer meaningful to evaluate performance. Instead, we're focused on total revenue, as discussed, as well as online growth and reopened store trends, which I will offer some colour on.

This was a strong quarter for Indigo with year-over-year revenue growth driven by sustained demand for categories that lend themselves to the stay-at-home social distancing climate. Reading, wellness, and at-home learning and entertainment experienced growth to last year.

Online channel revenue more than doubled at growth of 114%, sustaining a positive trajectory even after our store network fully reopened, with improvements in traffic conversion and average order value compared to the same period last year. We believe that the accelerated consumer shift to e-commerce is here to stay and are energized by the success of our digital platforms.

The retail channel alleviated some pressure from the online fulfilment centres through the launch of industry-leading click-and-collect services and the Company's Instacart partnership. This will continue to be a critical component of our omnichannel delivery strategy heading into the holiday season amid COVID-19 uncertainty.

Although traffic has not made a full recovery, conversion and average transaction value increased year-over-year as more customers visited store with the intention of making a purchase. These top-line results were furthered by the success of plum Plus, the Company's paid loyalty program, which was launched on a national scale during this period last year.

Cost of sales as a percentage of revenue increased 3% compared to the second quarter last year, which was primarily a function of increased shipping costs due to the higher penetration of online sales; however, improvements to the Company's online fulfilment processes and lower online promotional activity delivered a meaningful online margin rate increase year-over-year.

Overall operating, selling, and administration cost decreased by \$8.3 million in the second quarter compared to the same period last year. The decrease was a result of lower costs throughout the Company's store network in response to the year-over-year decline in traffic and reductions in discretionary spending. These cost reductions were furthered by government payroll subsidies and negotiated rent concessions, but partially offset by the cost of operating while maintaining social distancing practices and the cost of personal protective equipment.

Through the focus on cost containment and furthered by the top-line growth, the Company delivered higher adjusted EBITDA in the second quarter. Adjusted EBITDA improved by \$6.5 million for the 13-week period ended September 26, 2020 compared to the same period last year. These earnings improvements also drove a meaningful improvement to the net loss recognized.

The Company recognized a net loss of \$17.5 million for the second quarter, \$0.63 net loss per common share, compared to a net loss of \$20.5 million or \$0.74 net loss per common share for the same period last year.

The Company recognized no income taxes compared to recognizing an income tax recovery of \$7.4 million in the prior year, which partially offset the earnings improvement discussed.

Markedly, heading into the holiday season we have \$137.5 million in cash and short-term investments with no outstanding debt and a clean inventory position.

At this point we would like to open the call for any questions.

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 star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

As a reminder, ladies and gentlemen, if you have any questions, please press star one now.

At this time there appears to be no questions. You may proceed.

Craig Loudon — Chief Financial Officer, Indigo Books & Music Inc.

Thank you. Thank you, everyone, for your time and attention today. We appreciate you calling in and look forward to reconnecting on a quarterly basis. Our third quarter results will be announced on or around February 4th. Thank you again for your support and have a great day.

Operator

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