

**Indigo Books & Music Inc.**

**Q4 and Year-End Analyst Conference Call**

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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 Inc. Q4 and Year-End 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 \*, 0 for the Operator.

This call is being recorded on Wednesday, June 24, 2020.

I would now like to turn the conference 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 fourth quarter fiscal 2020 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](http://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 July 1, 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. I hope that all of you on the call have managed to navigate this crazy moment, staying healthy, and finding some sense of optimism. To the extent that any of you have directly or through family been struck by COVID-19, let me just send some warm thoughts your way.

This pandemic is, to be sure, a seismic, once-in-a-lifetime event. For Indigo, like so many others, the impact has been and will continue to be significant.

Deemed by government to be a nonessential retailer, Indigo was forced to shut down its full network of 196 retail stores two weeks prior to the end of this quarter. Before the shutdown, we were on track to closing the year with essentially flat adjusted EBITDA, reflecting a \$19 million improvement over last year. Now we felt that these results were just the beginning of seeing the impact of major changes we began implementing a year ago.

We were also heading into the new year expecting Q1 to be a strong quarter, putting us back on track to real profitability. So much that we have done over the last 12 to 18 months has been to effectively position the Company to be able to thrive in a vastly changed environment. Not surprisingly, this trajectory is now being impacted by what will clearly be at least a 10 to 12-month, COVID-19 damaging set of conditions.

All that said, while most of this meeting will speak to last year's results, which will be addressed in detail by our CFO, Craig Loudon, I do want to share that our organization has responded very well to the demands of this moment, and they are endless, requiring literally nonstop 18-hour days.

I will share that we feel truly optimistic about the medium-term trajectory of Indigo, and there is excitement about what we are doing, and experiencing the customer affection for our brand during this period has confirmed that the momentum we feel will, in fact, come to pass.

Each of our core businesses have new opportunities for growth and margin expansion. In addition, we are moving full steam ahead with productivity opportunities within the Company, some of which will be achieved this year and blunt at least some of the impact of COVID-19.

I think it would be difficult for anyone not directly in our sector to fully understand the demands created by this moment, from having to take on the cost of operating in an environment requiring PPE, special cleaning conditions and social distancing, to working with all our stakeholders and suppliers to negotiate ways to share the financial impact of COVID. And nevertheless, we are confident this is but a moment in time.

I will be happy to address any questions following Craig's CFO report.

**Craig Loudon**

Thank you, Heather. The results we are discussing are for the 52 weeks ended March 28, 2020. Comparative figures have been provided for the 52 weeks ended March 30, 2019. As a reminder, we began reporting under IFRS 16, a new leasing standard, in the first quarter. Our financials, on a reported basis and discussed today, include the adoption of IFRS 16. However, we have also provided certain metrics for fiscal 2020 that exclude the impacts of the new standard to assist with your analysis.

Revenue was \$957.7 million for the full year, which was \$89.1 million less than the prior year. The decline was primarily a result of the Company's strategic shift to be less promotional, eliminating unprofitable sales, strengthening competitive pressures, and was consistent with an industry decline in retail traffic. In addition to the planned revenue decrease, we experienced headwinds from the absence of a breakout book title or toy item in fiscal 2020.

COVID-19 disruptions also had a material negative impact on sales for the year, primarily due to the temporary store closures, which began on March 17, 2020, coinciding with many March Break school holidays that would historically drive meaningful retail activity in the fourth quarter.

Total comparable sales, including online, decreased 7.9 percent. Comparable retail store sales for the year decreased by 8.2 percent in superstores and 7.4 percent in small format stores, primarily as a result of softer traffic and the Company's deliberate actions to prioritize profitability over participating in many industry-wide promotional events that are non-margin accretive.

The online channel sales decreased by 7.5 percent for the year. The decline was primarily a result of the Company's strategic direction to eliminate unprofitable sales, as discussed, which delivered a meaningful increase in contribution dollars in the online channel this year. This included the planned reduction of mass-promotions such as the Every Book Ships for Free summer campaign and some of the online channel's Black Friday promotions.

The top-line decline that resulted was partially offset in the full year results by the acceleration of online sales experienced in late March, fuelled by retail store closures and government stay-at-home orders introduced in response to COVID-19.

The margin rate for the year increased 1.4 percent, driven by rate improvements in all channels across both general merchandise and print due to the Company's focused efforts to be less promotional and through stronger inventory management. Rate improvement was particularly strong in the online channel where the rate increased several percentage points. While the promotion strategy resulted in increased margin dollars in online as discussed, the sale volume loss experienced as a result of the reduced promotions plan outpaced the impact of higher-margin rates in the Company's retail channel.

Overall, operating, selling, and administrative expenses decreased by \$100.7 million compared to last year. Excluding the IFRS 16 impacts, these expenses decreased by \$32.4 million primarily through productivity initiatives and the impact of lower sales volumes on variable costs in our distribution network. Disciplined project spending and other cost-cutting initiatives also realized cost savings.

The Company recognized an impairment loss of \$56.6 million in the year compared to no impairment recognized in the prior year. Excluding the IFRS 16 impact, the impairment loss recognized was \$15.7 million. This impairment loss is reflective of the adverse impact of the COVID-19 pandemic on the Company's business and the current operating losses.

The Company recognized a non-cash income tax expense of \$84.7 million in the year compared to recognizing a non-cash income tax recovery of \$12.8 million last year. Excluding the IFRS 16 impact, income tax expense recognized was \$47.2 million. The recognition of a non-cash income tax expense is a result of the write-down of the Company's deferred tax assets, which, consistent with the impairment charges recognized, is reflective of the material uncertainty COVID-19 has generated in the Company's recent operating losses.

For the year, adjusted EBITDA increased by \$77.5 million. Excluding the IFRS 16 impact, adjusted EBITDA increased by \$9.6 million. Higher adjusted EBITDA was achieved despite a lower sales base for the year driven by the margin rate improvement, along with the Company's continued efforts to increase efficiencies in the Company's store and distribution network and to streamline its cost base.

Net loss for the year was \$185 million compared to a net loss of \$36.8 million last year. The increased loss was mainly due to the impairment loss of \$56.6 million recognized in the year as well as the deferred tax expense of \$84.7 million. The decline in profitability was also a result of lower revenues throughout the year, which were partially offset by the noted cost improvements achieved. Lost revenue

from temporary store closures in response to the COVID-19 pandemic and the Company's decision to pay retail labour wages for all scheduled shifts up until the end of March also had a negative impact on earnings for the year.

Capital investment in fiscal 2020 was \$10.6 million compared to \$86.6 million last year. This decrease was driven by the completion of the Company's capital investment program undertaken during fiscal 2019, which implemented changes across Indigo's retail outlets, digital platforms, and supply chain facilities.

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

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

Ladies and gentlemen, as a reminder, please press \*, 1 if you have any questions.

There are currently no questions at this time.

### Craig Loudon

Thank you, everyone, 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 7th. Thank you again for your support, and have a good day.



**Heather Reisman**

Thank you. Bye-bye.

**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.