



Indigo Books & Music Inc.

Fourth Quarter 2022 Analyst Call

Event Date/Time: June 3, 2022 — 10:00 a.m. E.T.

Length: 20 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision 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 Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Craig Loudon

Indigo Books & Music Inc. — Chief Financial Officer and Executive Vice President, Supply Chain

Heather Reisman

Indigo Books & Music Inc. — Chief Executive Officer

Peter Ruis

Indigo Books & Music Inc. — President

CONFERENCE CALL PARTICIPANTS

David McFadgen

Cormark Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Indigo Books & Music Inc. Financial Year 2022 Q4 Analyst Conference Call.

This call is being recorded on Friday, June 3, 2022

I would 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 Fiscal 2022 results. My name is Craig Loudon, and I'm the Chief Financial Officer. Joining us from Indigo today are the Chief Executive Officer, Heather Reisman, and the President, Peter Ruis.

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 June 10, 2022.

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 fiscal year.

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

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

Good morning, everyone, and thank you for joining us.

I'm pleased to be reporting on Fiscal 2022. Indigo delivered sales of \$1.06 billion, and this represents a 17 percent increase over the previous year. Our retail channel recovered from the depths

of the pandemic, though the Omicron spike at holiday definitely blunted some of the strong positive momentum generated over the summer and into the fall. Throughout the year, our e-commerce business delivered strong growth results, continuing the momentum this channel has gained throughout the pandemic.

Delving in a bit, our core print business posted healthy growth figures, which, as we've been reporting, were driven by a resurgence in the popularity of reading including a big spike in the new younger demographic who are engaging with recommendations made on TikTok. Hashtag BookTok has been a sweeping global phenomenon with over 50 billion views and a community full of energy. We are pleased to be partnering with TikTok Canada for Fiscal 2023 to deliver exciting book club content to this growing and important segment.

On the general merchandise side, our curated intentional product assortment continues to resonate with the Indigo customer. Our proprietary brands, OUI and NÓTA™, both committed to sustainability, are gaining strong customer loyalty, setting a foundation for what we believe will be long-term value for our business.

Of significance this past year, the Company returned to profitability, reporting EBITDA of \$32.5 million. This was achieved despite constant and continuing cost and delivery pressures on supply chain, those still affected by the pandemic, and the store constraints noted earlier.

During the year, we advanced efforts under our “Write The Future” sustainability initiative and will be reporting publicly later this year on actual achievements toward our carbon footprint reduction objective.

I would note that we are looking forward to seeing the impact of several strategic efforts initiated this past year, in the year we're currently in, including the upcoming launch of our totally new

digital platform, and advances in key aspects of product allocation, both efforts designed to provide a truly superior customer experience and improved inventory productivity.

Craig will now provide a detailed financial perspective.

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

Thank you, Heather.

The results we are discussing are for the 52 weeks ended April 2, 2022. Comparative figures reference the 53 weeks ended April 3, 2021.

Revenue for the full year increased \$157.6 million or 17.4 percent to \$1.06 billion from \$904.7 million in the prior year. Sustained momentum in the Company's omnichannel business was driven by recovery in its retail channel and an e-commerce business that has nearly doubled since before the onset of the pandemic. This net growth was powered by the success of its book and general merchandise product strategies, which delivered meaningful increases in the Company's full priced business across effectively all of its product categories.

As Heather discussed, the Company's position as Canada's leading book seller, combined with the effective mitigation of distribution delays experienced during the holiday sales period, resulted in its ability to capitalize on the heightened demand for reading, delivering growth of \$41.6 million in print. The Company's evolving product assortment and notably the lifestyle and kids business, which includes its highly successful proprietary brands, meaningfully contributed to the \$86.4 million growth in the general merchandise business.

As a result of social distancing and government mandated capacity constraints in stores, we believe that comparable sales are not currently meaningful to evaluate performance. Instead, we focused on total revenue, as discussed, as well as omnichannel sales trends.

The retail channel, which is inclusive of orders fulfilled through omnichannel store pickup, increased by \$176.2 million or 34.4 percent to \$688.6 million for the fiscal year. Revenue growth was largely driven by traffic improvements with year-over-year increases in average transaction values. While adverse pandemic conditions softened compared to Fiscal 2021, the emergence of the Omicron variant meaningfully dampened sales during the Company's seasonally strong holiday quarter.

Online Channel revenue decreased by \$48.3 million or 13.1 percent to \$321.7 million for the fiscal year, reflected in the rebound of retail, as discussed. However, the online business accelerated over the course of the pandemic, sustaining sales levels at 98 percent above Fiscal 2020. This sustained growth has allowed the Company's online channel to evolve into an integral pillar of its long-term growth trajectory.

As shopping behaviours continue to evolve, Indigo's customers increasingly leveraged the Company's digital platforms as the beginning of their purchase journey for product discovery. As a result, customers are coming into stores with strong intent to purchase, bolstering the high retail conversion rates, as discussed. So, while we monitor and report on channel economics, I should note, we are increasingly evaluating the business as a whole at an omnichannel level.

Cost of sales increased by \$51.3 million to \$619.2 million for the fiscal year. Excluding the impact of online shipping costs, cost of sales increased by \$55 million to \$560.8 million for the period. As a percentage of total revenue, this represents a decrease to 52.8 percent compared to 55.9 percent in the prior year.

The strength of the Company's product assortment and a refined promotional cadence allowed the Company to achieve its highest ever omnichannel merchandise margin rate. While this was particularly the result of the rebound of the Company's retail channel, which typically has a higher

margin profile, the online channel also delivered record merchandise margin rate performance. Remarkably, these improvements more than offset the adverse impacts of higher inbound freight costs triggered by the global supply chain constraints and inflationary pressures.

Online shipping costs increased by \$3.7 million to \$58.4 million this year, driven by increased fuel charges and additional shipping premiums incurred in response to the severe flooding experienced in British Columbia during the third quarter.

Overall, operating, selling and administration costs increased by \$53.6 million to \$350 million for the fiscal year. These costs were offset by external COVID-19 support of \$12.9 million, markedly lower than the \$44.0 million the Company was eligible for and recognized in net occupancy abatement and government rent and payroll subsidies in the prior year. Operating costs also increased on the return of higher sales volumes in the retail channel. The Company has also increased its strategic spending to build on the e-commerce momentum generated during the pandemic.

Adjusted EBITDA improved by \$60.8 million to \$32.5 million for the fiscal year. Higher Adjusted EBITDA was driven by strong sales and merchandise margin performance. These exceptional results were achieved against lower external COVID-19 labour support, a corresponding increase in retail operating expenses and unfavourable macroeconomic conditions.

The Company recognized net earnings of \$3.3 million for the fiscal year or \$0.12 net earnings per common share compared to a net loss of \$57.9 million or \$2.09 net loss per common share for the same period last year, an improvement of \$61.2 million.

With no outstanding debt, and cash balance of \$86.5 million, an increase to the Fiscal 2021 ending balance, the Company is well positioned to see through the remaining COVID-19 uncertainty and the execution of its post-pandemic growth strategy.

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

Operator

Thank you, sir.

Your first question will be from David McFadgen at Cormark Securities. Please go ahead.

David McFadgen — Analyst, Cormark Securities

Hi. Yes, a couple of questions. When I look at your superstore revenue, you did \$595 million in Fiscal '22. When I look back just prior to COVID, say I looked at the Fiscal 2019 year, you did about \$711 million. I just wanted to get your views on do you think you can get back to that level assuming we all go back to a normal society here.

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

Yes. Hi, David, it's Heather. How are you?

David McFadgen — Analyst, Cormark Securities

I'm doing well. How are you?

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

Good. What we're seeing is the traffic is still—it's still not where it used to be, and particularly in the downtown core. We're just looking, for example, downtown of Toronto, which is a key market for us. Traffic is still only about 60 percent of what it was. But what we are seeing is the beginning of movement up. It was 50 percent or 55 percent down a couple of months ago. So, what we need to see is the traffic to come back to at least 90 percent or 95 percent of where it was. It's slowly getting there. It's slowly moving there. I just got some new numbers from Vancouver, for example, where tourism is back in the downtown core, people are starting to come back. But this is one of those things that, like, we can't force it. We just have to sort of see the trend and be hopeful that by the time the holidays come

around we'll start to see the real return to the original trend. That is what we expect, while not losing some of the momentum of the online channel.

David McFadgen — Analyst, Cormark Securities

Okay.

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

Right. Sorry, David, if I could—it's Craig, if I could just point out one other thing. It seems like a lifetime ago, but we need to remember in Q1 of this fiscal year that we still had significant store closures in Ontario. In broader Ontario initially, but Toronto was closed for a significant chunk of Q1. So, that's the other thing you're seeing in those numbers. Our run rate now would be better than that.

David McFadgen — Analyst, Cormark Securities

Okay. Then obviously, you benefited significantly from COVID for your online revenue. It was up, obviously, substantially. So, it was down in the fourth quarter. I was just kind of wondering what your view is on that revenue line. Do you think you can hold it here at say the \$300 million or \$320 million level or do you just think it's probably going to go a bit down?

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

You know that we never make predictions even though you ask all the time. But there's no doubt that, in general, as people come up, come out, online will go down. That said, we have announced publicly we have a launch of a major replatforming in online and the introduction of some quite significant expansion in assortment. So, while we don't expect it to be as robust as when all the stores were closed, we continue to see this as a growth channel for sure.

David McFadgen — Analyst, Cormark Securities

Okay. So, when you talk about launching your new digital platform, are you just talking about the online experience, or does that include social media, maybe social commerce as well?

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

Well, we already have—I mean, to the extent that people are transacting, when they see something on Instagram they can click through. We're already participating there. But what will really drive the change is the mobile—our overall app will change both what you approach on desktop, mobile and all aspects of how we behave on digital. We have a pretty significant plan ahead of us.

David McFadgen — Analyst, Cormark Securities

Okay. When is that launching, Heather?

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

The new platform will launch, I think, mid to end of September. Peter, is that right? Mid to end of September?

Peter Ruis — President, Indigo Books & Music Inc.

A little bit later.

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

Okay, so early October. Is that early October? But definitely in time for the holiday.

David McFadgen — Analyst, Cormark Securities

Okay, in time for holiday. Okay. Then can you give us an update on your general merch product line, how you're feeling about it and how confident are you in that product line?

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

We're feeling pretty positive about both our own proprietary and also where we are coupling our own proprietary with brands and products that we see as idiosyncratically relevant to our customer and the position we're trying to take. So, we're feeling very positive and we have a huge—we have a significant emphasis behind that curated assortment and it is growing for sure.

David McFadgen — Analyst, Cormark Securities

Okay. Then maybe a question for you, Craig. As the business continues to grow, can you keep the SG&A kind of where it is, or do you see that maybe ramping up a lot?

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

Go ahead, Craig.

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

Sorry, I was just—can you repeat that, David. My phone crackled and I didn't hear you.

David McFadgen — Analyst, Cormark Securities

Yes, just on the SG&A line, I was just wondering if you think you can hold it here or it's going to climb as the business grows? I was just wondering if we can get some operating leverage and hold the SG&A here to improve the overall EBITDA margin?

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

Yes, for sure. At the home office level, we can hold it, no question, I think. What you are seeing in certainly operating cost in any event is the shift to online. We probably have \$30 million that have shifted out of retail into online. So, as a little bit of that shifts back, that will go down; or if it's net new revenue, it's a profitable channel now, so that's fine. But yes, we see—part of our big plan going forward is as we drive this growth that the SG&A as a percent of sales will go down, absolutely.

David McFadgen — Analyst, Cormark Securities

Okay.

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

Sorry. Craig, could you just confirm —you were saying \$30 million of what? Are you talking about additional cost?

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

I'm just talking about operating cost because when you...

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

Yes, yes. Shipping costs and stuff, yes.

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

To David's point earlier with retail not quite back to where it was, obviously, that's a bit more of a fixed cost network, and then when we've driven exceptional volume into online, it's meant more shipping costs and more fulfillment costs. So, those are more variable. But excluding that part, David, yes, we absolutely see leveraging our fixed cost base over the coming years that will drive to the bottom line.

David McFadgen — Analyst, Cormark Securities

Okay. Then just one last one. Can you give us an idea on what you think the CAPEX spend will be this year?

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

Yes, it'll probably be between \$20 million and \$25 million. So, I'd say around \$23 million, a little higher this year given significant replatform of our digital experience.

David McFadgen — Analyst, Cormark Securities

Okay. All right, thank you.

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

Thanks David.

Operator

At this time, Mr. Loudon, we have no further questions. Please proceed.

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

Thank you 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 10.

Thank you again for your support and have a great day.

Operator

Thank you sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines. Have a good weekend.