

Indigo Books & Music Inc.

Q2 Fiscal Year 2024 Analyst Conference Call

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CORPORATE PARTICIPANTS

Craig Loudon

Indigo Books & Music Inc. — Chief Operating Officer and 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. Q2 Fiscal Year '24 Analyst Conference Call.

(Operator instructions)

This call is being recorded on Wednesday, November 8, 2023.

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

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

Good morning, and thank you for joining us to review Indigo's fiscal 2024 second quarter results. My name is Craig Loudon and I'm the Chief Financial Officer and Chief Operating Officer of Indigo.

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 November 15th.

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 our Chief Executive Officer, Heather Reisman.

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

Good morning, everyone, and thank you for joining us. I am happy to be back at Indigo as CEO and Chief Book Lover. We have a journey ahead of us. However, I'm confident that we will return Indigo to both growth and profitability. Since my return just over seven weeks ago, we have framed an Indigo 4.0 transformation plan with both short- and long-term initiatives, and all focused on making Indigo the best it has ever been. As is always the case, it will take a bit of time before we begin seeing in the numbers what we want to see, but we are definitely headed in the right direction.

Just before my return, we launched a new e-commerce platform designed to provide our customers with a much-improved online shopping journey. As with all major technology changes, the early days had some challenges which impacted online sales, but, as of now, most critical disruptions are fully resolved, and we're happy to share that we are now seeing a meaningful improvement in online performance and conversion.

This quarter, we also released our Annual Impact Report, which highlighted our progress towards our goal of being a net zero company. The report is a testament to our unwavering commitment to drive positive and meaningful change both socially and environmentally.

Lastly, for this report, I'm excited to share that we just opened a new store at The Well in downtown Toronto. The Well Indigo fully reflects our brand mission, which is to inspire reading and enrich the lives of our customers. The store puts books at the forefront while offering a curated and

complementary assortment of general merchandise for booklovers. We invite all those listening, and, in particular, those who are shareholders, to visit The Well and share your feedback. We are very excited about it.

As we look ahead to the second half of this fiscal year and beyond, we will be fully focused on our Indigo 4.0 transformation plan, with priority number one being to fully re-energize our connection to our customers who have long called Indigo their happy place.

I would now like to ask Craig to provide a more detailed financial perspective on the quarter.

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

Thank you, Heather.

The results we are discussing are for the 13 weeks ended September 30, 2023 and comparative figures reference the 13 weeks ended October 1, 2022.

In the second quarter, the Company generated revenue of \$207 million compared to \$236 million for the same period last year, a change of \$29 million.

Sales in the retail channel, which is inclusive of orders fulfilled through omnichannel store pickup, decreased by \$16 million or 10% to \$154 million for the quarter, compared to \$170 million for the same period last year.

We have once again begun reporting on comparable sales. These measures are key performance indicators for the Company, but have no standardized meaning prescribed by IFRS and may not be

comparable to similar measures presented by other companies. For more information, please refer to the Management's Discussion & Analysis for the quarter.

Total comparable sales, which includes online sales, decreased 13%. Comparable retail store sales for the quarter decreased 10% in superstores and 5% in small format stores. Sales declined in comparison to an exceptional quarter in the prior year when the Company achieved its highest-ever merchandise sales in the second quarter.

Like the wider retail industry, Indigo continued to be negatively impacted by the current macroeconomic environment, which has put downward pressure on consumer buying behaviour, leading to reduced overall demand. This resulted in higher than anticipated store inventory levels, which hindered the positive customer experience the Company strives for. Consumers also exhibited increased price sensitivity, shown through a lift in sales during promotional periods, particularly at the end of the quarter when the Company focused on promotional events to clear through the aforementioned excess inventory in stores.

Revenue from the online channel decreased by \$13 million or 23% to \$42 million for the quarter, compared to \$54 million for the same period last year. The Company recently launched its new e-commerce platform, which provides improved functionality and agility and an overall superior customer experience. However, during the launch period, there were temporary disruptions to the channel which negatively impacted online sales. As Heather mentioned, most critical disruptions are now resolved.

Cost of sales for the second quarter decreased by \$16 million to \$125 million compared to \$141 million for the same period last year. Excluding the impact of online shipping costs, cost of sales

decreased by \$12 million to \$118 million for the quarter, compared to \$129 million for the same period last year. As a percentage of total revenue, this represents an increase to 57% compared to 55% in the prior year. Cost of sales was impacted by the discussed overall reduced sales volume in the quarter. The Company incurred higher discounting to sell through above optimal inventory levels, which negatively impacted cost of sales as a percentage of revenue. This impact was partially offset by reduced international freight costs, which have continued to normalize.

Total online shipping costs decreased by \$4 million to \$8 million for the quarter, compared to \$12 million in the same period last year. This was driven by the discussed reduction in online sales, furthered by improvements in online shipping unit economics from the consolidation with carriers offering more favourable terms.

Operating, selling, and administrative costs decreased by \$10 million to \$79 million for the quarter, compared to \$89 million for the same period last year.

Variable selling costs decreased in line with the reduction in sales volumes.

The Company also generated cost savings through reduced labour costs, partially attributable to a new store operating model, lower warehousing and distribution centre costs in both the retail and online channels, and a reduction in discretionary spending. These cost savings were partially offset by increased service fees associated with cloud computing arrangements to support a modernization of the Company's e-commerce technology.

Adjusted EBITDA for the quarter was a loss of \$13.8 million compared to a loss of \$10.6 million for the same period last year. As discussed, Adjusted EBITDA was impacted by reduced sales volumes, reflecting the pressures of the challenging macroeconomic environment and other customer disruptions. This led to higher than anticipated inventory levels from which the Company incurred additional discounting to sell through. By focusing on cost containment, the Company was able to absorb part of the impact in lost sales to profitability, resulting in a decrease to Adjusted EBITDA of only \$3 million compared to the prior year.

Net loss for the quarter was \$22.4 million or \$0.80 net loss per common share, compared to a net loss of \$15.9 million or \$0.57 net loss per common share for the same period last year.

In the second quarter, Indigo entered into a revolving line of credit facility with a related party, Trilogy Retail Holdings Inc., for an aggregate principal amount of up to \$45 million, and, with the consent of Trilogy, the amount may be increased by up to \$10 million. At quarter end, \$43 million was drawn from the facility.

As a reminder, Indigo's business is highly seasonal and follows quarterly sales and earnings or loss fluctuation patterns, which are similar to those of other retailers, but are highly dependent on the holiday sales season. A disproportionate amount of revenues and earnings are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year.

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

Q & A

Operator

Thank you.

(Operator Instructions)

We have no questions on the line. I will turn the call back over to you.

Craig Loudon — Chief Operating Officer and 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 third quarter results will be announced on or around February 8th. Thank you again for your support and have a great day.

Operator

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