

Indigo Books & Music Inc.

Q1 Fiscal Year 2024 Analyst Conference Call

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CORPORATE PARTICIPANTS

Craig Loudon

Indigo Books & Music Inc. — Chief Financial Officer

Peter Ruis

Indigo Books & Music Inc. — Chief Executive Officer

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Indigo Books & Music Inc. Q1 Fiscal Year '24 Analyst Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct 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 today, Friday, August 11th, 2023.

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 fiscal 2024 first quarter results.

My name is Craig Loudon, and I'm the Chief Financial 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 August 18th.

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, Peter Ruis.

Peter Ruis — Chief Executive Officer, Indigo Books & Music Inc.

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

This quarter, Indigo operated in a truly unique environment. On top of the challenging macroeconomic conditions, we weathered the carryover impacts of the ransomware attack from the prior quarter. Our search engine optimization was heavily impacted, resulting in a weaker online presence and lower online traffic, as was our express pick-up functionality. Furthermore, inventory replenishment was limited after the attack, which impacted our inventory assortment this quarter. While we have made substantial progress to achieve almost full operational function by the end of the quarter, the ransomware attack did have a material impact on quarterly sales.

In spite of these challenges, we remained focused on lowering our cost infrastructure as part of our goal of generating profitable growth. We reduced labour costs, partly through our new best-in-class labour retail model, as well as warehousing and distribution costs in both the retail and online sales channels. We also generated cost savings now that international freight costs have normalized from peak levels during the pandemic.

These savings were achieved despite the current state of a challenging macroeconomic environment. Inflation and interest rates are impacting customer behaviour and softening demand. Customers are demonstrating increased price sensitivity in this environment, noted through an increased penetration of promotions and a lift in sales during promotional periods.

As we look ahead to the remainder of the fiscal year, we are committed to continuing to deliver exceptional value to our customers and shareholders.

I'm excited to share that we have launched our reimagined website, and we look forward to providing our loyal customers with a much-improved online shopping experience that showcases our thoughtfully curated assortment.

We are also eagerly awaiting the opening of our new flagship store at The Well in Toronto this September, which is one of the many exciting initiatives that form our long-term strategy to generate sustainable and profitable growth and increase overall shareholder value.

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

Craig Loudon

Thank you, Peter. The results we are discussing are for the 13 weeks ended July 1, 2023, and comparative figures reference the 13 weeks ended July 2, 2022.

In the first quarter, the Company generated revenue of \$179 million compared to \$205 million for the same period last year, a change of \$25 million.

Sales in the retail channel, which is inclusive of orders fulfilled through omni-channel store pickup, decreased by \$14 million, or 10%, to \$130 million for the quarter compared to \$144 million for the same period last year.

We have once again begun reporting on comparable sales. I would like to remind everyone that 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 Discussion and Analysis for the quarter.

Total comparable sales, including online, decreased 14%. Comparable retail store sales for the quarter decreased 10% at superstores and 3% in small-format stores.

As Peter discussed, the ransomware attack had a material carryover impact on our quarterly results. Inventory replenishment challenges impacted product assortment into the first quarter and express pickup functionality was limited. These disruptions were less extensive for our small-format stores, noted by the variance in comparable sales.

Sales were also impacted by the current macroeconomic environment, which influenced consumer buying behaviour in the quarter. Overall demand declined, and customers gravitated towards promotional events.

Revenue from the online channel decreased by \$14 million, or 26%, to \$38 million for the quarter compared to \$52 million for the same period last year. The decline in online channel revenue was largely attributable to lower traffic and an overall weaker online presence due to the impacts of the ransomware attack on the Company's search engine optimization. This was furthered by a normalizing shift in channel mix between the retail and online channel. Still, the channel sales remained 33% above the comparable pre-pandemic period.

As the challenges of the ransomware attack were managed throughout the quarter, the Company generated some recovery in sales momentum, noted through the decline in year-over-year sales improving every month.

Cost of sales for the first quarter decreased by \$18 million to \$105 million compared to \$123 million for the same period last year. Excluding the impact of online shipping costs, cost of sales decreased by \$16 million to \$97 million for the quarter compared to \$113 million for the same period last year. As a percentage of total revenue, this represents a decrease to 54% compared to 55% in the prior year. Reduced cost of sales was impacted by the overall lower sales volumes. This was furthered by a normalized international freight cost compared to peak pandemic levels, as well as the shift in the sales channels mix,

as the retail network traditionally has a higher-margin profile. This was partially offset by a greater penetration of promotions as consumers showed increased price sensitivity in response to the current macroeconomic environment.

Total online shipping costs decreased by \$2 million to \$8 million for the quarter compared to \$10 million in the same period last year. This was driven by the discussed reduction in online sales.

Operating, selling, and administrative costs decreased by \$5 million to \$79 million for the quarter compared to \$84 million for the same period last year. As Peter mentioned, the Company generated cost savings through reduced labour costs, in addition to warehousing and distribution cost savings in both the retail and online channels. Furthermore, variable selling costs decreased in line with the reduction in sales volumes. These cost savings were partially offset by additional spending to support the modernization of the Company's e-commerce technology, as well as increased occupancy costs as the Company received \$1 million in occupancy expense abatement in the prior year.

Adjusted EBITDA decreased by \$2 million to a loss of \$21 million compared to a loss of \$19 million for the same period last year. As discussed, this was driven by reduced sales volumes which were impacted by the carryover effects of the ransomware attack, as well as the pressures of a challenging macroeconomic environment. This was partially offset by the discussed cost savings.

Net loss for the quarter was \$28.5 million, or \$1.02 net loss per common share, compared to a net loss of \$25.4 million, or \$0.91 net loss per common share for the same period last year.

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 that are highly dependent on a 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.

Lastly, I would like to share that on July 31, 2023, Indigo entered into a revolving line of credit facility with a related party, Trilogy Retail Holdings Inc., pursuant to the letter of commitment disclosed last quarter. The credit facility is 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. The credit facility will be used to finance the seasonal working capital and operational needs of the Company. It was issued on reasonable commercial terms and is not convertible, directly or indirectly, into equity or voting securities.

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

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press *, followed by the number 2. And if you are using a speakerphone, please lift your handset before pressing any keys.

Once again, ladies and gentlemen, if you would like to ask a question, please press *, 1 now.

There are no questions on the phone line, so I will turn the conference back to your hosts for any closing remarks.

Craig Loudon

Thank you for your time and attention today. We appreciate you calling in and look forward to reconnecting on a quarterly basis.

Our second quarter results will be announced on or around November 7th.

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

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you all for participating and ask you to please disconnect your lines.