



Indigo Books & Music Closes the Book on Its Dividend

Description

By Cameron Conway

Last month, **Indigo Books & Music** ([TSX:IDG](#)) (aka **Chapters**) [released](#) its second-quarter results, and for the third straight quarter the news wasn't very good. The company had a net loss of \$10.1 million (\$0.39 per share), up from last year's second-quarter loss of \$4 million (\$0.16 per share).

Chapters points the finger at several contributing factors for this downturn, including a \$4.3 million increase in "selling, administrative and other expenses", an increase in cost of operations and, on top of that, a 3.3% drop in revenues. (Sales came in at \$179.4 million for the quarter.)

The company reported a \$15 million loss in August and an \$8.2 million loss in May. The lack of blockbuster book titles this year has dramatically affected the company. With a boost last year from the *Hunger Games* trilogy and *50 Shades of Grey*, nothing has emerged this year to take their place.

Luckily for Chapters, some of these losses were buffered by double-digit growth in its "lifestyle, paper and toy" sales.

Dividend

The board of directors approved a quarterly dividend of 11 cents per common share to be paid ... but, with losses mounting, the company [revealed its plans](#) to suspend the dividend. Indigo first offered a dividend in 2009, after the debt incurred from the purchase of Chapters was repaid.

Suspending the dividend is "the right thing to do," Indigo founder and chief executive Heather Reisman wrote in a letter to shareholders.

What would have been paid out in dividends will instead be reinvested into major store renovations, increased investment in its proprietary product development capability, and an increased digital investment.

The "Big Push" for alternative growth

To state the obvious, investors will need that capital to be deployed smartly, because the retailer is

really struggling. New projects are under way, however, and some of these could get it moving in the right direction.

For instance, the [Indigo Mobile App](#) was recently launched in the **Apple** App Store and was named “one of the best new apps”. Also Chapters Indigo finalized an agreement to open American Girl “shop in shops” in select locations, which should fit nicely with its existing kids and LEGO section (no matter how creepy those dolls look).

Chapters has also opened its first 12 of 40 Indigotech “shop in shops,” which feature “design-inspired lifestyle electronics and accessories” (see more [here](#) & [here](#)). This goes beyond its current line of KOBO e-readers and adds products such as the iPad, iPad Mini, iPod Touch, Jawbone, wireless speakers, Beats by Dr. Dre headphones, and Apple TV.

Foolish bookmark

As the company accelerates its plans to transform itself from bookseller to toys, tech, and lifestyle products, investors are left wondering if the damage is too deep. Has the company shown that it is willing to make the sacrifices necessary to adapt in an ever-changing marketplace?

Though it’s taking concrete steps, the market has its doubts. The stock is down more than 20% since early November (before it announced results and suspended the dividend).

While Chapters may be the leader when it comes to storefront book sales, the toll taken on its own financial books should make investors take a step back to see if these changes will pay off in the long run.

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