



## Indigo Books and Music Inc.'s Growth Sends the Stock Soaring

### Description

After close on Monday **Indigo Books and Music Inc.** ([TSX:IDG](#)) released its financial results for the third quarter of fiscal 2016, and the results showed impressive growth and continued signs that the company's transformation is and will continue to be a big success.

In response to these results the stock posted an impressive return of over 17% yesterday. So what was so good about the quarter that had investors bidding the stock up so high?

#### Continued acceleration of revenue growth

This quarter the company posted revenue growth of 12.9% despite operating one less superstore and four fewer small-format stores. This compares to year-over-year revenue growth of 8.8% in the second quarter, so it is a pretty significant acceleration in growth that the company has achieved.

Same-store sales growth was even more impressive, coming in at 15.5% for the superstores, 13.4% for the small-format stores, and a whopping 17.9% for online sales. Indigo experienced growth in all categories with general merchandise posting double-digit growth, and with books posting high single-digit growth, again, greatly helped by the big trend this year in adult colouring books.

According to CEO Heather Reisman, shoppers continue to respond very strongly to the American Girl boutiques and as such, two new boutiques were opened during the quarter in Edmonton and in Calgary. Furthermore, we can expect another American Girl boutique to open up at Sherway Mall in Toronto within the next two months.

#### Strong margins, cash flows, and balance sheet

Gross margins increased nicely again this quarter to 44.1% from 43.5%, and operating margins increased to 12.5% from 10.2%. EPS came in strong at \$2.02 versus \$1.27 for a 59% increase. This was driven by increased revenues, increases in the higher-margin general merchandise sales, as well as a lower tax rate.

Free cash flows generated this quarter increased 19.2% to \$42.5 million, cash on hand was \$312

million as at the end of the quarter, and debt remains negligible.

### **In summary**

Today the company is in a good position to continue on the growth trajectory that it has shown this year. And with the results we are seeing out of Indigo recently, it seems to me to be only a matter of time before investors take notice, more analysts start covering the name, liquidity rises, and demand for the shares rises.

Going forward, the company sees much in the way of growth opportunities and will continue to invest in its growth in order to capture a bigger share of the Canadian retail market.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:IDG (Indigo Books & Music)

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