Indigo Books & Music Inc.’s Quarterly Results Show Healthy Fundamentals: Why Investors Should Pay Attention

Description

Indigo Books & Music Inc. (TSX:IDG) released its financial results for the third quarter of fiscal 2017, and the results show steady growth in a difficult retail market and continued signs that the company’s transformation is increasingly successful.

Here are the key takeaways.

Same-store sales

Same-store sales increased 4.5% this quarter, which is respectable given the challenging retail environment, and especially given that this follows last year’s same-store sales growth of 12.9%. Total sales increased 3.8% despite operating three fewer stores.

Strong online growth

The growth in online sales was a very impressive 11.8% in the quarter, and demand was so strong that the company actually had fulfillment issues, so it couldn’t benefit from the full increase in demand. These issues have been taken care of, but the takeaway point here is that there is tremendous opportunity in Indigo’s online business, which is performing better than expected.

General merchandise remains strong

The general merchandise category continues to be very strong and now represents 43.2% of total sales versus 39.5% in the same quarter last year. In the new store in Sherway Gardens in Toronto, the general merchandise category accounted for over 60% of sales, which is very positive given the fact that this category has higher margins. Based on these positive results, the company will be renovating more stores into the same format.

Books

Revenue from the books category was flat after a year of growth due to the strong comparison resulting from the strong colouring book trend of last year. Revenue from e-books declined. This confirms that books are here to stay and will not be replaced by e-books, as many have suggested over the years. This is obviously a very significant trend for Indigo.

Strong margins, cash flow, and balance sheet

Gross margins increased marginally this quarter to 44.2% from 44.1%, and EBITDA margins increased to 14.1% from 13.7%. Free cash flow was $50 million — an increase of 12.6% from last year's $44.6 million in free cash flow with negligible debt on the balance sheet.

In summary

Today, the company is in a good position to continue on the growth trajectory that it has shown these past two years. And with results like 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 rise.

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

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