Indigo Books and Music Inc.'s Quarterly Results Show Continued Strong Improvements

Description

Indigo Books and Music Inc. (TSX:IDG) released its financial results for the first quarter of fiscal 2018, and the results show steady growth in a difficult retail market and continued signs that the company's transformation is on the right track.

Here are the key takeaways:

Same-store sales, which includes online sales, increased 5% this quarter, which is respectable given the retail environment in general, and follows last year's same-store sales growth of 7.5%. Same-store sales at the company's superstores increased 2.4% and 2.9% at the company's small-format stores.

The strongest retail channel was, once again, the company's online channel, which saw a 20.5% increase in sales in the quarter. As a point of comparison, **Amazon.com, Inc.** (NASDAQ:AMZN) posted a 25% increase in sales in the latest quarter.

Online sales now represent 14.6% of total sales compared to 12.9% of sales in the same period last year — a reflection of the continued outperformance of the company's online segment. Online sales have a slightly lower margin as the shipping costs are higher, but this is being worked on, and management expects to bring margins higher in time.

General merchandise remains strong

The general merchandise category continues to be very strong with a 15% increase in sales this quarter, representing 36.4% of total sales versus 34.1% in the same quarter last year.

In the new concept store at Sherway Gardens in Toronto, sales have been strong, and 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 has renovated two more stores into the same format.

Strong margins and balance sheet

Gross margins increased this quarter to 45.4% from 44.5% in the same period last year due largely to the increase in general merchandising sales and improved margins on books.

Adjusted EBITDA, which is defined as earnings before taxes, depreciation, amortization, impairment, asset disposal, and equity investments, was $100,000 and is a big positive for the company. The company’s net loss of $0.20 per share reflects an improvement over last year’s net loss of $0.34 per share.

The balance sheet remains in good shape with negligible debt and almost $200 million in cash and short-term investments as of the end of the quarter.

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 may 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 and will continue to invest in growth initiatives to capture a bigger share of the Canadian retail market.

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