



## Is This Stock's U.S. Expansion Worth Betting On?

### Description

The initial investor reaction to **Indigo Books & Music Inc.** ([TSX:IDG](#)) fourth-quarter earnings announced May 29 was positive, pushing its stock up by 4% over the next two days only to lose all of those gains and more by the end of the week.

I suspect investors are getting cold feet about the company's expansion into the U.S., which will see it open its first store outside Canada this summer at New Jersey's Mall at Short Hills, a high-end shopping centre ranked one of the top 10 malls in America.

However, investors have known since November that Indigo was making a small foray into the U.S. to test the retail waters. CEO Heather Reisman called it the "perfect location" at the time and I think she's right. As they say, always lead with your best foot forward.

### An evolving business

Reisman appeared on BNN Bloomberg May 30 to discuss Indigo's evolution from bookseller to cultural department store. She made it clear that it is not heading south of the border to be just another bookseller because that boat's sailed a long time ago.

Five years ago there was no way that Indigo would have made such a move because it would have been slaughtered by the competition. Now it's totally refined its presentation to include so much more than books. It's now in a much better position to take a measured risk like the one it's about to embark on.

Remember, if you're not growing, you're dying.

This expansion, in my opinion, is a natural progression. It makes more sense to open at Short Hills in the U.S. than it does putting a location in some second-tier mall in Canada.

Why? Because that's its demographic. High-end shoppers with disposable income looking for a good in-store experience. Clearly, Reisman's going into this with her eyes wide open.

"People are saying they like a physical platform where they can come for an hour to drop out, sort of unplug, to bring their kids, to get inspired. They care about that. And our offering – the actual things we

sell – can intersect with that,” Reisman told BNN Bloomberg’s Amanda Lang. “That’s the idea that we are going to test – not whether someone needs another retailer selling books. It’s the combination of the product and the experience.”

### A \$35 share price

In March, I [suggested](#) that Indigo’s share price could hit \$35.50, its all-time high reached in May 1999, by continuing to push the boundaries. Expanding in the U.S. and opening an expensive 29,000 square foot flagship in the heart of downtown Vancouver are two ways to do that.

As Reisman told Lang, Indigo will be much different five years from now, just as it’s much different today than it was five years ago. That commitment to change is what will keep Indigo at the top of its game and one of the best run retailers in Canada.

If you’re worried about the fact that Indigo missed the analyst estimate for fiscal 2018 — analysts were expecting \$28.7 million on the bottom line for the year but delivered just \$21.8 million — don’t be.

Same-store sales for the year grew by 6.2%, 210 basis points higher than in fiscal 2017, while net income rose 4.2% despite higher costs resulting from the increase in Ontario’s minimum wage. In my opinion, Indigo delivered a very solid year.

Like **Roots Corp.** ([TSX:ROOT](#)), which is now [expanding](#) into the U.S. on a selective basis, I see Indigo dipping its toe in the U.S. retail waters as a good thing.

Time will tell just how good.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:IDG (Indigo Books & Music)
2. TSX:ROOT (Roots Corporation)

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