Is This Stock Going to Be the Latest Amazon (NASDAQ:AMZN) Casualty?

Description

Amazon.com has wreaked havoc on many different companies over the years. Not only has it changed the world of e-commerce, but Amazon has been changing the way people look at shopping overall. With its foray into grocery stores through the acquisition of Whole Foods, the powerhouse tech company has shown that its reach has no boundaries.

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Companies trying to compete against Amazon have often failed, and it's a fate that's likely going to meet others as well, especially with its financial might only getting stronger.

One company that could be in danger is **Indigo Books & Music** (TSX:IDG). The bookseller owns over 200 stores, mainly in Canada, and recently released some uninspiring results. In its latest quarter, the company saw same-store sales fall by 7.6% — an astronomical number when it comes to retail.

Revenues of $193 million were down 5.9% from the previous year, and the company incurred a net loss for the eighth time in the past 10 reporting periods. What's most concerning is that it wasn't one area that struggled and weighed down the results, but that all categories performed poorly.

However, when you're competing directly against Amazon, especially when it comes to books, it's going to be a big challenge. It may even be impressive that Indigo has lasted as long as it has given that the threat isn't exactly new but is one the company is very cognizant of.

In a conference call with analysts, CEO Heather Reisman stated, "There's no question that the intensity with which Amazon is in the market is huge and we have several categories that are up against them." While Indigo offers more than just books, so too does Amazon, and unless it can find a niche that allows it to stay successful, there may not be a lot of hope left for the company.

Expansion could make thing worse, not better

Indigo has plans for global expansion and opened its first U.S. store last year (although has since halted further openings for now). However, that may not be the solution to the Amazon problem, and it could just make matters worse.

The company has struggled to generate positive free cash flow with only one of the last six quarters being able to stay out of the red. Cash flow from operations has not been any better. The reality is that the company may not have the resources it needs to not only expand but to compete with Amazon in any way, shape, or form.

Bottom line

Over the past 12 months, Indigo has seen more than half of its valuation get erased. Unfortunately, there's little reason to expect that things will get better anytime soon. The company has $89 million in cash and short-term investments on its books as of its most recent quarter, which is down from $153 million a year ago. Factor in that the company is burning through cash and going to need a lot more of it to expand and continue competing against Amazon, and you've got a recipe for disaster.

Indigo is not a stock I'd bet on for the long term, as there's some serious risk here, and the stock could just continue falling further and further down.

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