

Indigo Reports Q1 Total Revenues up 5.4% Comp Superstore Sales grow by 8.3%

TORONTO, ON - August 5, 2014 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported 5.4% growth in revenue for its first quarter ended June 28, 2014.

Revenue for the quarter was \$180.8 million, up \$9.3 million from last year, despite operating five fewer superstores and two fewer small format stores. On a comparable store basis, Indigo and Chapters superstores posted 8.3% growth, while Coles and IndigoSpirit small format stores grew 1.9%. Sales from Indigo's online channel, indigo.ca, grew by 14.0%.

The increase in revenue was partly driven by a shift in the timing of Easter and the launch of American Girl® specialty boutiques. The majority of the growth came from underlying business improvement with double-digit increases in lifestyle, paper, and toys. Books experienced growth in the quarter for the first time since fiscal 2010.

Commenting on the results, CEO Heather Reisman said, "We are pleased to see that our transformational strategy is gaining traction with our customers. It is encouraging that we are bucking global trends in our industry*. We are especially proud of the brand loyalty we continue to build upon."

The loss before income taxes was \$14.0 million for the 13-week period ended June 28, 2014, compared to a loss of \$20.9 million for the period ended June 29, 2013. The improvement of \$6.9 million was primarily driven by higher revenues and improved margins. There was no income tax recovery in the period compared to a \$5.8 million recovery in the prior year. As a result the Company recognized a net loss of \$14.0 million (\$0.55 net loss per common share) for this quarter, compared to a net loss of \$15.0 million (\$0.59 net loss per common share) for the same period last year.

As previously announced, during the quarter, the Company launched the first two American Girl® specialty boutiques outside of the U.S. Customer response to the boutiques, located at the Indigo Yorkdale Mall location, and the Chapters on Robson Street in Vancouver, has been outstanding. As a result, Indigo is excited to announce that it will open an additional American Girl® specialty boutique within its Chapters Rideau store in Ottawa before the crucial Holiday season.

The Indigo Love of Reading Foundation celebrated its 10th anniversary during the quarter and announced that it will once again donate \$1.5 million to 20 high-needs elementary schools in an effort to bolster literacy and transform school libraries across the country. To date the Foundation has committed more than \$17.0 million to 1,600 elementary schools in Canada through its Literacy Fund grant and community Adopt a School program.

Analyst/Investor Call

Indigo will host a conference call for analysts and investors to review these results at 5:00 p.m. (Eastern Time) today, August 5th, 2014. The call can be accessed by dialling 416-764-8688 from within the Toronto area, or 1-888-390-0546 outside of Toronto. The eight digit participant code is 67210351.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on August 13th, 2014. The call playback can be accessed after 6:45 p.m. (ET) on August 5th, 2014, by dialing 416-764-8677 from within the Toronto area, or 1-888-390-0541 outside of Toronto. The six-digit replay passcode number is 210351. The conference call transcript will be archived in the Investor Relations section of the Indigo website, www.indigo.ca.

*Data released by the U.S. Census Bureau shows U.S. bookstore sales of -1.3% for April 2014 and -7.5% for May 2014 when compared to the prior year. For the first five months of calendar 2014, bookstore sales are -8.0%. June results have not yet been released.

Forward-Looking Statements

Statements contained in this news release that are not historical facts are forward-looking statements which involve risk and uncertainties that could cause results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are: general economic, market or business conditions in Canada; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company.

Non-IFRS Financial Measures

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards and International Accounting Standards 34, "Interim Financial Reporting." In order to provide additional insight into the business, the Company has also provided non-IFRS data, including comparative store sales growth, in the press release above. This measure does not have a standardized meaning prescribed by IFRS and is therefore specific to Indigo and may not be comparable to similar measures presented by other companies. Comparative store sales growth is a key indicator used by the Company to measure performance against internal targets and prior period results. This measure is commonly used by financial analysts and investors to compare Indigo to other retailers. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis.

About Indigo Books & Music Inc.

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (IDG). As the largest book, gift and specialty toy retailer in Canada, Indigo operates in all provinces under different banners including Indigo Books & Music; Indigo Books, Gifts, Kids; Indigospirit; Chapters; and Coles. The online channel, indigo.ca, offers a one-stop online shop with a robust selection of books, toys, home décor, stationery, and gifts.

Indigo founded the [Indigo Love of Reading Foundation](#) in 2004 to address the underfunding of public elementary school libraries. Every year the Indigo Love of Reading Foundation grants \$1.5 million to 20 high-needs elementary schools so they can transform their libraries with the purchase of new books and education resources. To date, the Indigo Love of Reading Foundation's Literacy Fund has committed \$15.5 million to more than 170 schools nationally. The Foundation's annual grassroots Adopt a School program unites employees, customer, schools and their communities to raise funds to put even more books into the hands of children. Over the past five years we have raised over \$2.0 million so 400,000 children have a book to call their own.

To learn more about Indigo, please visit the Our Company section at indigo.ca.

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Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	As at June 28, 2014	As at June 29, 2013	As at March 29, 2014
ASSETS			
Current			
Cash and cash equivalents	150,667	191,346	157,578
Accounts receivable	8,802	9,010	5,582
Inventories	213,185	207,029	218,979
Prepaid expenses	6,182	5,288	5,184
Total current assets	378,836	412,673	387,323
Property, plant and equipment	56,931	56,144	58,476
Intangible assets	20,723	21,283	21,587
Equity investment	79	597	598
Deferred tax assets	44,604	54,570	44,604
Total assets	501,173	545,267	512,588
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	138,553	145,892	136,428
Unredeemed gift card liability	46,776	46,901	46,827
Provisions	911	1,828	928
Deferred revenue	13,002	13,753	12,860
Income taxes payable	-	11	-
Current portion of long-term debt	446	757	584
Total current liabilities	199,688	209,142	197,627
Long-term accrued liabilities	2,719	3,368	2,896
Long-term provisions	153	78	164
Long-term debt	177	527	227
Total liabilities	202,737	213,115	200,914
Equity			
Share capital	204,204	203,805	203,812
Contributed surplus	9,198	7,789	8,820
Retained earnings	85,034	120,558	99,042
Total equity	298,436	332,152	311,674
Total liabilities and equity	501,173	545,267	512,588

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended June 28, 2014	13-week period ended June 29, 2013
Revenues	180,802	171,525
Cost of sales	(100,849)	(99,289)
Gross profit	79,953	72,236
Operating, selling, and administrative expenses	(93,810)	(93,309)
Operating loss	(13,857)	(21,073)
Interest on long-term debt and financing charges	(9)	(27)
Interest income on cash and cash equivalents	377	584
Share of loss from equity investment	(519)	(371)
Loss before income taxes	(14,008)	(20,887)
Income tax recovery	-	5,839
Net loss and comprehensive loss for the period	(14,008)	(15,048)
Net loss per common share		
Basic	\$ (0.55)	\$ (0.59)
Diluted	\$ (0.55)	\$ (0.59)

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	13-week period ended June 28, 2014	13-week period ended June 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings loss for the period	(14,008)	(15,048)
Add (deduct) items not affecting cash		
Depreciation of property, plant, and equipment	3,698	4,039
Amortization of intangible assets	2,868	2,713
Loss on disposal of capital assets	7	10
Stock-based compensation	335	503
Directors' compensation	104	133
Deferred tax assets	-	(5,839)
Other	1,145	(575)
Net change in non-cash working capital balances	3,587	976
Interest on long-term debt and financing charges	9	27
Interest income on cash and cash equivalents	(377)	(584)
Share of loss from equity investment	519	371
Cash flows used in operating activities	(2,113)	(13,274)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,160)	(1,290)
Addition of intangible assets	(2,004)	(1,832)
Interest received	377	640
Cash flows used in investing activities	(3,787)	(2,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(186)	(197)
Interest paid	(10)	(36)
Proceeds from share issuances	331	-
Dividends paid	-	(2,783)
Repurchase of options	-	(975)
Cash flows from (used in) financing activities	135	(3,991)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,146)	531
Net decrease in cash and cash equivalents during the period	(6,911)	(19,216)
Cash and cash equivalents, beginning of period	157,578	210,562
Cash and cash equivalents, end of period	150,667	191,346