

## Indigo posts a \$29 million profit in the third quarter

### Online, SAP implementation drag on quarter profitability

**TORONTO - February 12, 2004** -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported profits of \$28.8 million for this past quarter and \$9.6 million year to date.

The third quarter included the busy Holiday season during which the Company served over 6.5 million customers through its retail, online and corporate channels. The Company also saw an unprecedented demand for Gift Cards with sales of this product increasing 20% over the same quarter last year. Since Gift Card sales are not recorded as revenues until the card is used, their impact will be seen in future quarters.

Total sales for the quarter were \$279 million, or \$2 million over the same quarter last year. Superstores saw a same store increase of 1.4% while mall stores declined by 1.7%. On a year to date basis, comparative total store sales are up 1.3%.

After a strong performance in the second quarter, [chapters.indigo.ca](http://chapters.indigo.ca) continues its ascent. Sales in the third quarter experienced a solid increase of 25% over the same quarter last year, from \$12.8 million to \$16.0 million.

Net profits this quarter were down \$2 million over the same quarter last year, largely due to the continued margin and marketing pressure in the online business. "Value pricing and low cost shipping options are important to our customers and we intend to remain competitive on these fronts, while pursuing our efforts to improve our cost position," commented Indigo Chief Executive Officer, Heather Reisman.

The picture year to date shows a net profit of \$9.6 million versus \$9.9 million last year. Earnings this year include \$1.4 million in one-time costs associated with the Company's organization-wide Supply Chain Redesign project or SAP. Ms Reisman summarized the expected outcome of this major initiative, which addresses the flow of physical goods, information and money as "Having the right selection, available at the right location, at the right time, in the right quantities and in the right condition."

Earnings per share are down \$0.08 to \$1.20 from \$1.28 a year ago while the position year to date stands at \$0.40, from \$0.45 last year.

The Company also reports that it paid down \$31 million in long-term debt from its operating cash flow subsequent to the quarter end.

## **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.

## **About Indigo Books & Music Inc.**

Indigo is a Canadian company and the largest book retailer in Canada, operating bookstores in all provinces under the names *Indigo Books Music & more*, *Chapters*, *The World's Biggest Bookstore* and *Coles*. Indigo operates [chapters.indigo.ca](http://chapters.indigo.ca), an online retailer of books, gifts, music, videos, and DVDs.

Indigo is a publicly traded company listed on the Toronto Stock Exchange under the stock symbol IDG. To learn more about Indigo, please visit the About Our Company section of [chapters.indigo.ca](http://chapters.indigo.ca).

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**Indigo Books & Music Inc.**  
**Consolidated Balance Sheets**

Figures as at December 27, 2003 and December 28, 2002 are unaudited

Figures as at March 29, 2003 are audited

<i>[in thousands of dollars]</i>	As at December 27, 2003	As at December 28, 2002	As at March 29, 2003
<b>Assets</b>			
Cash and cash equivalents	\$ 58,067	\$ 65,564	\$ -
Accounts receivable	9,377	17,859	9,383
Inventories	227,182	253,560	202,455
Income taxes receivable	-	52	181
Prepaid expenses	6,347	5,548	5,663
Future tax assets	4,012	6,538	4,012
<b>Total current assets</b>	<b>304,985</b>	349,121	221,694
Capital assets, net	101,447	106,875	106,170
Future tax assets	6,671	4,145	6,671
Goodwill	58,458	64,570	58,458
Deferred financing fees, net of accumulated amortization of \$3,529 [December 28, 2002- \$1,125; March 29, 2003 - \$2,391]	646	2,164	1,784
<b>Total assets</b>	<b>472,207</b>	526,875	394,777
<b>Liabilities and shareholders' equity</b>			
Bank indebtedness	-	-	21,388
Accounts payable and accrued liabilities	274,526	302,013	189,702
Income taxes payable	1,296	-	-
Deferred revenue	7,001	6,378	6,835
Current portion long-term debt	53,266	31,000	31,324
<b>Total current liabilities</b>	<b>336,089</b>	339,391	249,249
Accrued benefit obligations	1,073	920	886
Long-term debt	1,498	53,000	23,186
Convertible debentures	33,542	29,853	31,092
<b>Total liabilities</b>	<b>372,202</b>	423,164	304,413
<b>Shareholders' equity</b>			
Share capital	193,426	193,426	193,426
Equity portion of convertible debentures	1,903	1,903	1,903
Deficit	(95,324)	(91,618)	(104,965)
<b>Total shareholders' equity</b>	<b>100,005</b>	103,711	90,364
<b>Total liabilities and shareholders' equity</b>	<b>\$ 472,207</b>	\$ 526,875	\$ 394,777

**Indigo Books & Music Inc.**  
**Consolidated Statements of Earnings**

*Unaudited*

	<b>13-week period ended December 27, 2003</b>	13-week period ended December 28, 2002	<b>39-week period ended December 27, 2003</b>	39-week period ended December 28, 2002
<i>[in thousands of dollars, except per share data]</i>				
<b>Revenue</b>	<b>\$ 279,431</b>	\$ 277,454	<b>\$ 613,759</b>	\$ 604,997
Cost of product, purchasing, selling and administration	<b>240,628</b>	236,786	<b>575,835</b>	564,901
	<b>38,803</b>	40,668	<b>37,924</b>	40,096
Amortization of capital assets	<b>6,493</b>	5,926	<b>18,882</b>	17,892
Amortization of pre-opening store costs	-	14	-	28
<b>Earnings before the undernoted items</b>	<b>32,310</b>	34,728	<b>19,042</b>	22,176
Interest on long-term debt and financing charges	<b>1,342</b>	2,394	<b>4,240</b>	7,017
Interest on bank indebtedness	<b>1,829</b>	1,413	<b>4,501</b>	4,749
<b>Earnings before income tax</b>	<b>29,139</b>	30,921	<b>10,301</b>	10,410
Income tax expense	<b>360</b>	150	<b>660</b>	450
<b>Net earnings for the period</b>	<b>\$ 28,779</b>	\$ 30,771	<b>\$ 9,641</b>	\$ 9,960
<b>Basic net income per common share</b>	<b>\$ 1.20</b>	\$ 1.28	<b>\$ 0.40</b>	\$ 0.45
<b>Diluted net income per common share</b>	<b>1.12</b>	1.21	<b>0.40</b>	0.45
<b>Weighted average common shares outstanding</b>				
Basic	<b>23,965</b>	23,956	<b>23,965</b>	22,020
Diluted	<b>26,056</b>	25,824	<b>24,010</b>	22,041