

Indigo Reports Q3 Results: Strong holiday season driving 8.2% revenue growth

TORONTO, ON – February 6, 2018 – For the third quarter ended December 30, 2017, Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer, delivered its highest ever quarterly revenues and a 17th straight quarter of topline comparable growth.

Revenue for the quarter increased \$33.0 million or 8.2% from last year to reach \$433.3 million. Total comparable sales, which include both online sales and comparable store sales, increased by 7.9%, fueled by continued momentum in online operations and impressive in-store performance. Revenue growth was driven by double digit growth in all areas of the general merchandise business. The core book business remains healthy, showing growth over last year.

Commenting on the results, CEO Heather Reisman said: “We are happy to report a strong third quarter – our biggest holiday to date. Our performance across all channels and categories is a clear reflection of the success of our “Every gift tells a story” seasonal message, the strength of our brand and the passion of our customers for our reimagined cultural department store concept. Our investments in digital, new store development and supply chain infrastructure were critical to our success, as was, of course, the outstanding engagement of our team.”

The Company will be opening new stores, including a new flagship location in downtown Vancouver in the coming year, as well as a distribution facility in Calgary to support future growth and provide faster, more efficient service to its customers in the western provinces. The Company will also accelerate the roll out of its new store concept, as these newly re-imagined stores, which reflect Indigo’s transformation from a bookstore to a cultural department store for booklovers, continued to show outstanding growth during the critical holiday season.

Net earnings for the third quarter was \$42.6 million (net earnings per common share of \$1.58) compared to net earnings of \$40.0 million (net earnings per common share of \$1.51) last year. This increase in net earnings is reflective of the top-line growth in the quarter, which was fueled by investments in digital, new store development, marketing and supply chain, plus certain changes in accounting estimates.

The Company ended the period with cash and short-term investments of \$308 million and no debt, maintaining a very solid financial position.

Analyst/Investor Call

Indigo will host a conference call for analysts and investors to review these results at 5:30 p.m. (Eastern Time) today, February 6th, 2018. The call can be accessed by dialing 416-764-8688 from within the Toronto area, or 1-888-390-0546 outside of Toronto. The eight digit participant code is 74160254.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on Tuesday, February 13th, 2018. The call playback can be accessed after 7:30 p.m. (ET) on Tuesday, February 6th, 2018, 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 160254#. The conference call transcript will be archived in the Investor Relations section of the Indigo website, www.indigo.ca.

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 total comparable sales, 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. Total comparable sales 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.

Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are defined as sales generated by stores that have been open for more than 52-weeks.

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 Love of Reading Foundation makes grants to high-needs elementary schools so they can transform their libraries with the purchase of new books and educational resources. This quarter, the Love of Reading Foundation provided an additional \$1.5 million to over 500 high-needs elementary schools as part of its annual Adopt a School program and in connection with Giving Tuesday, an annual global celebration of charitable giving. To date, the Love of Reading Foundation has committed over \$26 million to 3,000 elementary schools, benefitting more than 900,000 students.

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

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Consolidated Balance Sheets

(thousands of Canadian dollars)	As at December 30, 2017	As at December 31, 2016	As at April 1, 2017
ASSETS			
Current			
Cash and cash equivalents	247,895	316,255	130,438
Short-term investments	60,000	-	100,000
Accounts receivable	17,139	18,250	7,448
Inventories	270,839	243,439	231,576
Prepaid expenses	4,253	3,825	11,706
Derivative assets	500	1,060	266
Assets held for sale	-	-	1,037
Total current assets	600,626	582,829	482,471
Property, plant and equipment	79,215	65,779	65,078
Intangible assets	17,619	18,646	15,272
Equity investments	5,438	2,948	1,800
Deferred tax assets	31,673	40,381	43,981
Total assets	734,571	710,583	608,602
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	254,873	248,547	170,611
Unredeemed gift card liability	58,777	66,002	50,396
Provisions	172	26	110
Deferred revenue	8,892	12,948	12,852
Income taxes payable	23	26	360
Current portion of long-term debt	-	9	-
Derivative liabilities	2,791	-	-
Total current liabilities	325,528	327,558	234,329
Long-term accrued liabilities	1,773	2,353	2,378
Long-term provisions	45	89	51
Total liabilities	327,346	330,000	236,758
Equity			
Share capital	219,976	215,463	215,971
Contributed surplus	11,361	10,481	10,671
Retained earnings	177,566	153,863	145,007
Accumulated other comprehensive income	(1,678)	776	195
Total equity	407,225	380,583	371,844
Total liabilities and equity	734,571	710,583	608,602

Consolidated Statements of Earnings and Comprehensive Earnings

(thousands of Canadian dollars, except per share data)	13-week period ended December 30, 2017	13-week period ended December 31, 2016	39-week period ended December 30, 2017	39-week period ended December 31, 2016
Revenue	433,274	400,296	864,102	810,340
Cost of sales	(244,230)	(223,175)	(481,455)	(449,608)
Gross profit	189,044	177,121	382,647	360,732
Operating, selling, and administrative expenses	(133,454)	(126,230)	(340,241)	(323,275)
Operating profit	55,590	50,891	42,406	37,457
Net interest income	753	639	2,011	1,527
Share of earnings from equity investments	2,444	2,886	1,405	1,964
Earnings before income taxes	58,787	54,416	45,822	40,948
Income tax expense				
Current	(90)	-	(90)	-
Deferred	(16,147)	(14,462)	(13,173)	(11,174)
Net earnings	42,550	39,954	32,559	29,774
 Other comprehensive income				
Items that are or may be reclassified subsequently to net earnings (loss):				
Net change in fair value of cash flow hedges				
(net of taxes of (64) and 1,505 ; 2016 - 467 and 686)	175	1,278	(4,118)	1,876
Reclassification of net realized (gain) loss				
(net of taxes of (329) and (892) ; 2016 - 288 and 402)	899	(789)	2,440	(1,100)
Other comprehensive income (loss)	1,074	489	(1,678)	776
 Total comprehensive earnings	43,624	40,443	30,881	30,550
 Net earnings per common share				
Basic	\$1.58	\$1.51	\$1.22	\$1.13
Diluted	\$1.56	\$1.48	\$1.20	\$1.11

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	13-week period ended December 30, 2017	13-week period ended December 31, 2016	39-week period ended December 30, 2017	39-week period ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	42,550	39,954	32,559	29,774
Adjustments to reconcile net earnings to cash flows from operating activities				
Depreciation of property, plant and equipment	4,840	4,281	13,738	12,040
Amortization of intangible assets	2,020	2,254	5,717	6,530
Net impairment (reversal) of capital assets	-	(963)	-	(963)
Loss on disposal of capital assets	85	-	46	1
Share-based compensation	321	454	1,103	1,210
Directors' compensation	82	83	263	280
Deferred tax assets	16,146	14,462	12,992	11,171
Disposal of assets held for sale	-	-	1,037	-
Collateral from derivative transactions	1,910	-	-	-
Other	1,142	40	1,579	(335)
Net change in non-cash working capital balances	87,562	82,154	46,296	61,253
Interest expense	3	3	8	33
Interest income	(756)	(642)	(2,019)	(1,560)
Income taxes received	-	51	-	51
Share of earnings from equity investments	(2,444)	(2,886)	(1,405)	(1,964)
Cash flows from operating activities	153,461	139,245	111,914	117,521
CASH FLOWS USED FOR INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(13,932)	(6,860)	(27,921)	(15,884)
Addition of intangible assets	(3,345)	(3,620)	(8,066)	(8,670)
Change in short-term investments	(50,000)	-	40,000	-
Distribution from equity investments	(1)	-	433	437
Interest received	765	422	1,871	963
Investment in associate	-	-	(2,666)	-
Cash flows from (used for) investing activities	(66,513)	(10,058)	3,651	(23,154)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	-	(12)	-	(44)
Interest paid	-	(1)	-	(27)
Proceeds from share issuances	1,561	3,008	3,331	4,545
Cash flows from financing activities	1,561	2,995	3,331	4,474
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,154)	178	(1,439)	926
Net increase in cash and cash equivalents during the period	87,355	132,360	117,457	99,767
Cash and cash equivalents, beginning of period	160,540	183,895	130,438	216,488
Cash and cash equivalents, end of period	247,895	316,255	247,895	316,255

Non-IFRS Financial Measures

The following table reconciles total comparable sales to revenue, the most comparable IFRS measure.

(millions of Canadian dollars)	13-week period ended	13-week period ended	December 31, 2016	% increase
	December 30, 2017	December 31,		
Revenue	433.3	400.3		8.2
Adjustments				
Other revenue ¹	(10.0)	(8.2)		
Stores not in both fiscal periods	(4.4)	(3.9)		
Total comparable sales	418.9	388.2		7.9

¹ Includes cafés, irewards, gift card breakage, Kobo revenue share, Plum breakage, and corporate sales.