Indigo Reports First Quarter Financial Results

TORONTO, ON – August 13, 2019 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported total comparable sales decline of 7.6% for the first quarter of its current 2020 fiscal year, including both online sales and comparable store sales.

Revenue for the first quarter ended June 29, 2019 was $192.6 million compared to $205.4 million for the same period last year, a decrease of $12.8 million. This decline in sales was the result of a strategic shift to reduce promotional activity to improve profitability and eliminate unprofitable sales. Together with stronger inventory management, this strategic shift led to margin rate improvements of 0.8% in the first quarter. Additionally, the general merchandise business continues to be affected by softer discretionary spending in certain categories core to the Company, while the book business has sustained historical trends.

Commenting on the results, CEO Heather Reisman said: "This quarter's results were in line with our expectations. While we continue to face many of the same headwinds from last year, strategic steps to recharge growth, increase productivity and improve profitability are well underway. We remain confident in our investments over the long term and in the steps we are taking."

Indigo reported a net loss of $19.1 million ($0.69 net loss per common share) compared to a net loss of $15.4 million ($0.57 net loss per common share) last year. This decline in profitability was attributed to the decline in sales and restructuring costs, partially offset by lower selling, administrative and other expenses as the Company continues its cost-cutting initiatives. Additionally, the Company's loss position was unfavourably impacted by higher amortization in the current period, driven by an increase in the Company's capital asset base from growth in recent years.

Adoption of IFRS 16, Leases

The Company adopted IFRS 16 *Leases* ("IFRS 16") in the first quarter of fiscal 2020, replacing IAS17 *Leases* and related interpretations. IFRS 16 introduced a single lessee accounting model which required substantially all the Company's operating leases to be recorded on balance sheet as a right-of-use asset and a lease liability, representing the obligation to make future lease payments. The Company implemented the standard on March 31, 2019 using the modified retrospective approach, therefore the Company's 2020 first quarter results reflect lease accounting under IFRS 16. Prior year results have not been restated and continue to be reported under IAS 17. When compared to the previous accounting method, this resulted in a material adjustment to the Company's financial statements.

Analyst/Investor Call

Indigo will host a conference call for analysts and investors to review these results at 9:00 a.m. (Eastern Time) tomorrow, August 14th, 2019. 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 63479256.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on Wednesday, August 21st, 2019. The call playback can be accessed after 11:00 a.m. (ET) on Wednesday, August 14th, 2019, 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 479256#. 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; 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 ("IFRS") 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 this press release. 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 based on a 52-week fiscal year and defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocation and material changes in square footage.

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 and one territory under different banners including Indigo, Chapters, Coles, Indigospirit, and The Book Company. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating its first retail store in Short Hills, New Jersey. 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 provides grants to high-needs elementary schools so they can transform their libraries with the purchase of new books and educational resources. To date, the Indigo Love of Reading Foundation has committed over $31 million to more than 3,000 elementary schools, benefitting more than 1,000,000 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 June 29, 2019**	As at June 30, 2018	As at March 30, 2019
ASSETS			
Current			
Cash and cash equivalents	**52,344**	94,907	41,290
Short-term investments	**38,000**	60,000	87,150
Accounts receivable	**12,325**	12,370	10,543
Inventories	**241,868**	257,718	252,541
Prepaid expenses	**7,652**	6,845	5,802
Income taxes receivable	**573**	-	483
Derivative assets	**-**	3,216	1,070
Other assets	**871**	922	853
Total current assets	**353,633**	435,978	399,732
Property, plant, and equipment, net	**122,362**	94,708	125,906
Right-of-use assets, net[1]	**411,752**	-	-
Intangible assets, net	**31,743**	27,184	32,527
Equity investments	**3,588**	3,163	4,359
Deferred tax assets[1]	**94,243**	40,431	47,940
Total assets	**1,017,321**	601,464	610,464
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities[1]	**154,886**	159,111	179,180
Unredeemed gift card liability	**48,794**	42,027	48,729
Provisions	**200**	160	60
Deferred revenue	**7,897**	7,180	7,636
Income taxes payable	**-**	152	-
Short-term lease liabilities[1]	**43,833**	-	-
Derivative liabilities	**924**	106	-
Total current liabilities	**256,534**	208,736	235,605
Long-term accrued liabilities[1]	**1,877**	2,472	4,698
Long-term provisions	**45**	45	45
Long-term lease liabilities[1]	**518,028**	-	-
Total liabilities	**776,484**	211,253	240,348
Equity			
Share capital	**225,531**	222,699	225,531
Contributed surplus	**13,048**	12,041	12,716
Retained earnings[1]	**3,159**	153,196	131,311
Accumulated other comprehensive income (loss)	**(901)**	2,275	558
Total equity	**240,837**	390,211	370,116
Total liabilities and equity	**1,017,321**	601,464	610,464

[1] The noted current period balances have been impacted by the adoption of IFRS 16. Refer to note 3 of the unaudited condensed interim consolidated financial statements for additional information.

Consolidated Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Revenue	**192,556**	205,376
Cost of sales	**(108,682)**	(117,463)
Gross profit	**83,874**	87,913
Operating, selling, and administrative expenses[1]	**(103,571)**	(108,788)
Operating loss[1]	**(19,697)**	(20,875)
Net interest income (expense)[1]	**(5,424)**	810
Share of loss from equity investments	**(773)**	(639)
Loss before income taxes[1]	**(25,894)**	(20,704)
Income tax recovery[1]	**6,824**	5,315
Net loss[1]	**(19,070)**	(15,389)
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net loss:		
Net change in fair value of cash flow hedges [net of taxes of 368; 2018 - (554)]	**(1,004)**	1,505
Reclassification of net realized gain [net of taxes of 167; 2018 - 16]	**(455)**	(45)
Other comprehensive income (loss)	**(1,459)**	1,460
Total comprehensive loss[1]	**(20,529)**	(13,929)
Net loss per common share[1]		
Basic	**$ (0.69)**	$ (0.57)
Diluted	**$ (0.69)**	$ (0.57)

[1] The noted current period balances have been impacted by the adoption of IFRS 16. Refer to note 3 of the unaudited condensed interim consolidated financial statements for additional information.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
OPERATING ACTIVITIES		
Net loss[1]	**(19,070)**	(15,389)
Adjustments to reconcile net loss to cash flows used for operating activities		
Depreciation of property, plant, and equipment and right-of-use assets[1]	**15,765**	5,127
Amortization of intangible assets	**3,266**	2,192
Loss on disposal of capital assets	**461**	240
Share-based compensation	**248**	489
Directors' compensation	**84**	89
Deferred income tax recovery[1]	**(6,824)**	(5,406)
Other	**256**	(81)
Net change in non-cash working capital balances related to operations[1]	**(17,453)**	(21,623)
Interest expense[1]	**6,077**	3
Interest income	**(653)**	(813)
Share of loss from equity investments	**773**	639
Cash flows used for operating activities	**(17,070)**	(34,533)
INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	**(2,849)**	(17,757)
Addition of intangible assets	**(2,482)**	(5,165)
Change in short-term investments	**49,150**	-
Distribution from equity investments	**-**	528
Interest received	**653**	813
Cash flows from (used for) investing activities	**44,472**	(21,581)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities[1]	**(10,013)**	-
Interest paid[1]	**(6,078)**	-
Proceeds from share issuances	**-**	688
Cash flows from (used for) financing activities	**(16,091)**	688
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(257)**	77
Net increase (decrease) in cash and cash equivalents during the period	**11,054**	(55,349)
Cash and cash equivalents, beginning of period	**41,290**	150,256
Cash and cash equivalents, end of period	**52,344**	94,907

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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 June 29, 2019**	13-week period ended June 30, 2018	**% increase (decrease)**
Revenue	192.6	205.4	**(6.2)**
Adjustments			
Other revenue[1]	(3.2)	(5.4)	
Stores not in both fiscal periods	(21.8)	(18.6)	
Total comparable sales	167.6	181.4	**(7.6)**

[1] Includes cafés, irewards, gift card breakage, plum breakage, corporate sales and Kobo revenue share.