Indigo Reports Third Quarter Financial Results:
Flat Comparable Sales Despite Aggressive Transformation Program and Postal Disruptions

TORONTO, ON – February 5, 2019 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer, reported flat total comparable sales growth for the third quarter of its current 2019 fiscal year.

Revenue for the third quarter ended December 29, 2018 was $426.0 million compared to $433.3 million for the same period last year, a decrease of $7.3 million or 1.7%. This decline in revenue was driven partially by the residual impact of delayed renovations and meaningfully by the Canada Post strike. Leading up to the Canada Post strike, the Company had a strong online growth trend reflecting customer desire to shop this channel. This trend reversed itself dramatically with the Canada Post disruption. A one-time non-cash gift card breakage revenue adjustment of $4.4 million in the prior period also contributed to the lower reported revenue.

Commenting on the results, CEO Heather Reisman said: "Our third quarter financial performance was challenging. Given the factors which impacted the Company, we were satisfied to sustain sales essentially on par with last year."

Net earnings for the third quarter was $21.5 million (net earnings per common share of $0.80) compared to net earnings of $42.6 million (net earnings per common share of $1.58) last year. The Canada Post strike and store renovation selling disruptions contributed to higher costs and lower margins from resulting clearance strategies. Also contributing to lower profits were investments in strategic initiatives, including the expansion of the Company's distribution facilities, as well as minimum wage increases across Canada and the one-time revenue inclusion in the prior year for breakage as noted above. Indigo ended the quarter in a very strong financial position with cash, cash equivalents and short-term investments of $249 million and no debt.

In mid-October 2018, the Company opened its first U.S. location at the Mall at Short Hills in New Jersey and early indicators are showing that the concept is resonating well with customers. The 30,000-square foot location features IndigoKids and IndigoBaby, as well as a Café Indigo, while carrying Indigo's full assortment of books, beautiful gifts and exclusive in-house designed lifestyle products, all crafted to enrich the lives of its customers.

During the quarter, the Company opened three new stores, while completing renovations in four others, bringing the total number of newly designed and renovated stores to 24, since the start of its retail transformation journey.

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 5th, 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 56116783.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on Tuesday, February 12th, 2019. The call playback can be accessed after 7:30 p.m. (ET) on Tuesday, February 5th, 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 116783#. 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 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 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 under different banners including Indigo Books & Music; Indigospirit; Chapters; The Book Company; and Coles. In 2018, the Company opened its first Indigo U.S. location 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 $29 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

(Unaudited)

(thousands of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017 [1]	As at March 31, 2018 [1]
ASSETS			
Current			
Cash and cash equivalents	**249,251**	247,895	150,256
Short-term investments	**-**	60,000	60,000
Accounts receivable	**21,394**	17,139	6,747
Inventories	**253,486**	270,839	264,586
Prepaid expenses	**6,802**	4,253	4,124
Income taxes receivable	**382**	-	-
Derivative assets	**4,189**	500	1,439
Other assets	**3,346**	794	865
Total current assets	**538,850**	601,420	488,017
Property, plant, and equipment	**119,569**	79,215	82,314
Intangible assets	**31,407**	17,619	24,215
Equity investments	**5,495**	5,438	4,330
Deferred tax assets	**38,648**	31,673	35,563
Total assets	**733,969**	735,365	634,439
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**268,403**	255,667	177,344
Unredeemed gift card liability	**57,751**	58,777	44,218
Provisions	**154**	172	166
Deferred revenue	**7,625**	7,154	7,029
Income taxes payable	**-**	23	152
Derivative liabilities	**-**	2,791	327
Total current liabilities	**333,933**	324,584	229,236
Long-term accrued liabilities	**3,320**	1,773	2,283
Long-term provisions	**45**	45	45
Total liabilities	**337,298**	326,402	231,564
Equity			
Share capital	**225,530**	219,976	221,854
Contributed surplus	**12,526**	11,361	11,621
Retained earnings	**155,550**	179,304	168,585
Accumulated other comprehensive income (loss)	**3,065**	(1,678)	815
Total equity	**396,671**	408,963	402,875
Total liabilities and equity	**733,969**	735,365	634,439

[1] Certain prior period figures have been restated due to the adoption of IFRS 15. Refer to Note 3 of the unaudited condensed interim consolidated financial statements for additional information.

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended December 29, 2018**	13-week period ended December 30, 2017 [1]	**39-week period ended December 29, 2018**	39-week period ended December 30, 2017 [1]
Revenue	**425,971**	433,328	**847,660**	864,255
Cost of sales	**(252,700)**	(244,230)	**(499,034)**	(481,455)
Gross profit	**173,271**	189,098	**348,626**	382,800
Operating, selling, and administrative expenses	**(147,294)**	(133,454)	**(369,548)**	(340,241)
Operating profit (loss)	**25,977**	55,644	**(20,922)**	42,559
Net interest income	**722**	753	**2,282**	2,011
Share of earnings from equity investments	**2,812**	2,444	**1,694**	1,405
Earnings (loss) before income taxes	**29,511**	58,841	**(16,946)**	45,975
Income tax recovery (expense)	**(8,032)**	(16,237)	3,911	(13,263)
Net earnings (loss)	**21,479**	42,604	**(13,035)**	32,712
Other comprehensive income (loss)				
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 (1,401) and (1,404) ; 2017 - (64) and 1,505]	**3,815**	175	**3,821**	(4,118)
Reclassification of net realized (gain) loss [net of taxes of 404 and 577 ; 2017 - (329) and (892)]	**(1,100)**	899	**(1,571)**	2,440
Other comprehensive income (loss)	**2,715**	1,074	**2,250**	(1,678)
Total comprehensive earnings (loss)	**24,194**	43,678	**(10,785)**	31,034
Net earnings (loss) per common share				
Basic	**$0.80**	$1.58	**($0.48)**	$1.22
Diluted	**$0.79**	$1.56	**($0.48)**	$1.20

[1] Certain prior period figures have been restated due to the adoption of IFRS 15. Refer to Note 3 of the unaudited condensed interim consolidated financial statements for additional information.

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended December 29, 2018**	13-week period ended December 30, 2017[1]	**39-week period ended December 29, 2018**	39-week period ended December 30, 2017[1]
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	**21,479**	42,604	**(13,035)**	32,712
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant, and equipment	**5,700**	4,840	**15,865**	13,738
Amortization of intangible assets	**2,921**	2,020	**7,475**	5,717
Loss on disposal of capital assets	**527**	85	**857**	46
Share-based compensation	**438**	321	**1,414**	1,103
Directors' compensation	**75**	82	**260**	263
Deferred tax assets	**8,213**	16,146	**(3,913)**	12,992
Disposal of assets held for sale	**-**	-	**-**	1,037
Collateral from derivative transactions	**-**	1,910	**-**	-
Other	**(434)**	1,142	**(909)**	1,579
Net change in non-cash working capital balances	**112,840**	87,508	**96,973**	46,143
Interest expense	**3**	3	**6**	8
Interest income	**(726)**	(756)	**(2,288)**	(2,019)
Share of income from equity investments	**(2,812)**	(2,444)	**(1,694)**	(1,405)
Cash flows from operating activities	**148,224**	153,461	**101,011**	111,914
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES				
Purchase of property, plant, and equipment	**(15,669)**	(13,932)	**(53,967)**	(27,921)
Addition of intangible assets	**(4,451)**	(3,345)	**(14,676)**	(8,066)
Change in short-term investments	**60,222**	(50,000)	**60,000**	40,000
Distribution from equity investments	**-**	(1)	**528**	433
Interest received	**726**	765	**2,288**	1,871
Investment in associate	**-**	-	**-**	(2,666)
Cash flows from (used for) investing activities	**40,828**	(66,513)	**(5,827)**	3,651
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from share issuances	143	1,561	**2,907**	3,331
Cash flows from financing activities	**143**	1,561	**2,907**	3,331
Effect of foreign currency exchange rate changes on cash and cash equivalents	**433**	(1,154)	**904**	(1,439)
Net increase in cash and cash equivalents during the period	**189,628**	87,355	**98,995**	117,457
Cash and cash equivalents, beginning of period	**59,623**	160,540	**150,256**	130,438
Cash and cash equivalents, end of period	**249,251**	247,895	**249,251**	247,895

[1] Certain prior period figures have been restated due to the adoption of IFRS 15. Refer to Note 3 of the unaudited condensed interim consolidated financial statements for additional information.

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 December 29, 2018**	13-week period ended December 30, 2017 [1]	**% increase (decrease)**
Revenue	**426.0**	433.3	**(1.7)**
Adjustments			
Other revenue [2]	**(3.1)**	(10.0)	
Stores not in both fiscal periods	**(35.2)**	(35.6)	
Total comparable sales	**387.7**	387.7	**0.0**

[1] Certain prior period figures have been restated due to the adoption of IFRS 15. Refer to Note 3 of the unaudited condensed interim consolidated financial statements for additional information.

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