Indigo Reports FY20 Full Year Results: Progress on repositioning disrupted by COVID-19

TORONTO, ON – June 23, 2020 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer, today announced financial results for the year ended March 28, 2020. In addition, the Company provided an update on recent developments related to the COVID-19 global pandemic.

The Company reported revenue of $957.7 million for its fiscal year ended March 28, 2020. This compares with revenue of $1,046.8 million for the same period last year, a decline of 8.5%. Total comparable sales, including both online sales and comparable retail store sales, decreased by 7.9%.

Revenues declined primarily in response to the Company's strategic direction to be less promotional and the absence of a hit print title or toy item. COVID-19 disruptions also had a material negative impact on annual revenue as store closures coincided with the March Break school holidays, a period that historically drove meaningful fourth quarter store-based sales.

Commenting on the results, CEO Heather Reisman said: "Fiscal 2020 has been a critical year of restructuring, including repatriating our entire design studio from New York, and other efforts designed to lower our overall cost structure. This activity will continue and gain further traction right through Fiscal 2021."

Excluding the impact of IFRS 16, the Company reported an increase of $9.6 million in adjusted EBITDA for the year. This improvement in earnings was tempered by the adverse financial impact of COVID-19, determined as of the date of temporary store closures on March 17, 2020, which resulted in downward pressure of $9.1 million to the Company's adjusted EBITDA.

Predominantly a function of non-cash impairment charges, Indigo reported a net loss of $185.0 million ($6.72 basic net loss per common share) compared to a net loss of $36.8 million ($1.35 basic net loss per common share) last year. The loss incurred was primarily a result of non-cash impairment losses of $56.6 million, as well as a non-cash deferred income tax expense of $84.7 million associated with the write-down of the Company's deferred tax assets. These charges reflect the broader economic challenges and material uncertainty introduced by COVID-19, as well as the Company's recent operating losses.

Revenue for the fourth quarter was $178.1 million compared to revenue of $199.2 million for the same quarter last year, a decline of 10.6%. Retail sales were impacted by a fully closed retail network for two key weeks in the quarter. Net loss for the quarter was $171.3 million compared to a net loss of $23.8 million last year due primarily to the impairment and deferred tax charges noted above. In addition to the impairment charges the decision to pay retail labour wages for all scheduled shifts up until the end of March, even though stores were closed, had a material negative impact on earnings in the fourth quarter.

Adoption of IFRS 16, Leases

The Company adopted IFRS 16 *Leases* ("IFRS 16") in the first quarter of fiscal 2020, replacing IAS 17 *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 the 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 fiscal 2020 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, June 24th, 2020. 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 06414955.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on Wednesday, July 1st, 2020. The call playback can be accessed after 11:00 a.m. (ET) on Wednesday, June 24th, 2020, 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 414955 #. 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 information" within the meaning of applicable Canadian securities legislation. To the extent any forward-looking information constitutes "financial outlooks" within the meaning of applicable Canadian securities laws, such information is being provided as preliminary financial and operational results. Financial outlooks, as with forward-looking information generally, are, without limitation, based on the assumptions and subject to various risks and uncertainties that could cause actual results to differ materially from those expressed in or implied in this news release. Among the key factors that could cause such differences are: general economic, market or business conditions; the future impacts and government response to the COVID-19 pandemic, including any impact to online and/or retail operations of the Company; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company, as set out in the Company's annual information form dated June 23, 2020 and available on the Company's issuer profile on SEDAR at www.sedar.com.

Undue reliance should not be placed on such forward-looking information and no assurance can be given that such events will occur in the disclosed time frames or at all. Any forward-looking information included in this news release is made as of the date of this news release and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise unless required by applicable securities laws.

Non-IFRS Financial Measures

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). In order to provide additional insight into the business, the Company has also provided non-IFRS data, including total comparable sales and adjusted EBITDA, in this press release. These measures do not have standardized meanings prescribed by IFRS and are therefore specific to Indigo and may not be comparable to similar measures presented by other companies. Total comparable sales and adjusted EBITDA are key indicators used by the Company to measure performance against internal targets and prior period results. These measures are 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. In fiscal 2020, these measures also exclude retail sales fluctuations from the temporary store closures associated with COVID-19. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

About Indigo Books & Music Inc.

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (IDG). Indigo is the world's first Cultural Department Store – a physical and digital meeting place inspired by and filled with books, music, art, ideas, beautifully designed lifestyle products. Indigo believes in real books, in living life fully and generously, in being kind to each other and that stories – big and little – connect us.

Indigo founded the Indigo Love of Reading Foundation in 2004 to address the underfunding of public elementary school libraries. Every year the 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 Foundation has committed over $32 million to more than 3,000 elementary schools, benefitting more than 1,000,000 students. Most recently in April 2020, in the wake of the COVID-19 pandemic and unprecedented nation-wide school closures, the Foundation committed $1.0 million to provide books to families in need.
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 March 28, 2020**	As at March 30, 2019
ASSETS		
Current		
Cash and cash equivalents	**120,473**	41,290
Short-term investments	**-**	87,150
Accounts receivable	**7,640**	10,543
Inventories	**241,812**	252,541
Prepaid expenses	**6,062**	5,802
Income taxes receivable	**138**	483
Derivative assets	**3,794**	1,070
Other assets	**2,320**	853
Total current assets	**382,239**	399,732
Loan receivable	**446**	-
Property, plant, and equipment, net	**91,215**	125,906
Right-of-use assets, net[1]	**382,146**	-
Intangible assets, net	**24,571**	32,527
Equity investment, net	**2,353**	4,359
Deferred tax assets[1]	**-**	47,940
Total assets	**882,970**	610,464
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities[1]	**164,294**	179,180
Unredeemed gift card liability	**51,673**	48,729
Provisions[1]	**2,034**	60
Deferred revenue	**10,682**	7,636
Short-term lease liabilities[1]	**68,402**	-
Total current liabilities	**297,085**	235,605
Long-term accrued liabilities[1]	**1,196**	4,698
Long-term provisions[1]	**469**	45
Long-term lease liabilities[1]	**500,215**	-
Total liabilities	**798,965**	240,348
Equity		
Share capital	**226,986**	225,531
Contributed surplus	**12,822**	12,716
Retained earnings (deficit)[1]	**(158,801)**	131,311
Accumulated other comprehensive income[1]	**2,998**	558
Total equity	**84,005**	370,116
Total liabilities and equity	**882,970**	610,464

[1] The noted current period balances have been impacted by the adoption of IFRS 16. Refer to Note 4 of the consolidated financial statements for additional information.

Consolidated Statements Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)	**13-week period ended March 28, 2020**	13-week period ended March 30, 2019	**52-week period ended March 28, 2020**	52-week period ended March 30, 2019
Revenue	**178,065**	199,164	**957,722**	1,046,824
Cost of sales	**(109,508)**	(120,844)	**(553,627)**	(619,878)
Gross profit	**68,557**	78,320	**404,095**	426,946
Operating, selling, and other expenses[1]	**(88,391)**	(111,113)	**(422,624)**	(480,662)
Impairment Losses[1]	**(56,582)**	-	**(56,582)**	-
Operating loss[1]	**(76,416)**	(32,793)	**(75,111)**	(53,716)
Net interest income (expense)[1]	**(6,290)**	938	**(23,524)**	3,220
Share of earnings (loss) from equity investments	**(63)**	(836)	**(1,651)**	858
Loss before income taxes[1]	**(82,769)**	(32,691)	**(100,286)**	(49,638)
Income tax recovery (expense)[1]	**(88,554)**	8,929	**(84,712)**	12,840
Net loss[1]	**(171,323)**	(23,762)	**(184,998)**	(36,798)
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 (1,195) and (912); 2019 - 507 and (897)]	**3,263**	(1,382)	**2,492**	2,439
Reclassification of net realized loss (gain) [net of taxes of (33) and 182; 2019 - 330 and 908]	**89**	(900)	**(497)**	(2,471)
Foreign currency translation adjustment [net of taxes of 43 and 43; 2019 - (6) and (6)]	**445**	(225)	**445**	(225)
Other comprehensive income (loss)	**3,797**	(2,507)	**2,440**	(257)
Total comprehensive loss[1]	**(167,526)**	(26,269)	**(182,558)**	(37,055)
Net earnings (loss) per common share[1]				
Basic	**($6.22)**	($0.86)	**($6.72)**	($1.35)
Diluted	**($6.22)**	($0.86)	**($6.72)**	($1.35)

[1] The noted current period balances have been impacted by the adoption of IFRS 16. Refer to Note 4 of the consolidated financial statements for additional information.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	**52-week period ended March 28, 2020**	52-week period ended March 30, 2019
OPERATING ACTIVITIES		
Net loss[1]	**(184,998)**	(36,798)
Adjustments to reconcile net loss to cash flows from (used for) operating activities		
Depreciation of property, plant, and equipment and right-of-use assets[1]	**63,106**	21,920
Amortization of intangible assets	**13,374**	10,650
Gain on disposal of equity investments	**(1,484)**	-
Loss on disposal of capital assets	**1,932**	2,088
Impairment Losses[1]	**56,582**	-
Share-based compensation	**1,268**	1,514
Directors' compensation	**293**	350
Deferred income tax expense (recovery)[1]	**84,712**	(12,840)
Other[1]	**377**	(809)
Net change in non-cash working capital balances related to operations[1]	**4,512**	15,211
Interest expense[1]	**25,585**	6
Interest income	**(1,714)**	(3,226)
Share of (earnings) loss from equity investments	**1,651**	(858)
Cash flows from (used for) operating activities	**65,196**	(2,792)
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	**(2,223)**	(67,505)
Addition of intangible assets	**(8,397)**	(19,056)
Change in short-term investments	**87,150**	(27,150)
Distribution from equity investments	**-**	829
Principal payment on loan receivable	**719**	-
Interest received	**2,034**	3,225
Cash flows from (used for) investing activities	**79,283**	(109,657)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities[1]	**(40,391)**	-
Interest paid[1]	**(25,585)**	-
Proceeds from share issuances	**-**	2,908
Cash flows from (used for) financing activities	**(65,976)**	**2,908**
Effect of foreign currency exchange rate changes on cash and cash equivalents	**680**	575
Net increase in cash and cash equivalents during the period	**79,183**	(108,966)
Cash and cash equivalents, beginning of period	**41,290**	150,256
Cash and cash equivalents, end of period	**120,473**	41,290

[1] The noted current period balances have been impacted by the adoption of IFRS 16. Refer to Note 4 of the 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 March 28, 2020**	13-week period ended March 30, 2019	**% increase / (decrease)**	**52-week period ended March 28, 2020**	52-week period ended March 30, 2019	**% increase / (decrease)**
Revenue	178.1	199.2	**(10.6)**	957.7	1,046.8	**(8.5)**
Adjustments						
Other revenue[1]	(4.5)	(0.7)		(17.1)	(14.7)	
Adjustments for non-comparable items	(8.4)	(29.8)		(65.6)	(81.7)	
Total comparable sales	165.2	168.7	**(2.1)**	875.0	950.4	**(7.9)**

[1] Includes café revenue, irewards card sales, revenue from unredeemed gift cards, revenue from unredeemed Plum points, Plum Plus membership fees, corporate sales and revenue-sharing with Rakuten Kobo Inc.

The following table reconciles adjusted EBITDA to loss before income taxes, the most comparable IFRS measure, and shows the impact of IFRS 16 to the Company's statement of loss in the period:

(millions of Canadian dollars)	**52-week period ended March 28, 2020 IFRS 16**	**Impact of IFRS 16**	**52-week period ended March 28, 2020 IAS 17**	52-week period ended March 30, 2019 IAS 17
Revenue	**957.7**	**-**	**957.7**	1,046.8
Cost of sales	**(553.6)**	**-**	**(553.6)**	(619.9)
Cost of operations	**(255.6)**	**(62.5)**	**(318.1)**	(330.9)
Selling, general and administrative expenses	**(90.1)**	**(5.4)**	**(95.5)**	(115.1)
Adjusted EBITDA[1]	**58.4**	**(67.9)**	**(9.5)**	(19.1)
Depreciation of property, plant and equipment and right-of-use assets	**(63.1)**	**40.1**	**(23.0)**	(21.9)
Amortization of intangible assets	**(13.4)**	**-**	**(13.4)**	(10.6)
Loss on disposal of capital assets and equity investments	**(0.4)**	**-**	**(0.4)**	(2.1)
Impairment losses	**(56.6)**	**40.9**	**(15.7)**	-
Net interest income (expense)	**(23.5)**	**25.6**	**2.1**	3.2
Share of earnings (loss) from equity investments	**(1.7)**	**-**	**(1.7)**	0.9
Loss before income taxes	**(100.3)**	**38.7**	**(61.6)**	(49.6)

[1] Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments.