

Indigo Reports Fiscal 2021 First Quarter Financial Results - Exceptional growth in online business blunts impact of coast to coast mandated store closures

TORONTO, ON – August 6, 2020 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer, reported first quarter financial results and provided an update on recent developments related to the COVID-19 global pandemic.

In a quarter when the Company was forced to close its stores for the majority of the period, and with some stores essentially closed until the very end, the Company reported revenue of \$135.1 million, compared with revenue of \$192.6 million for the same period last year, a decline of \$57.5 million. The Company was able to blunt some of the impact of these closures through its online channel which experienced exceptional growth. Online revenue grew 214% for the 13-week period compared to last year, remaining strong through the reopening period.

The Company refocused its efforts at the outset of the pandemic to meet demand through its digital channels – lifted by a renewed interest in the core categories of reading, wellness, at-home learning and entertainment, and successfully fulfilled order volumes comparable to its holiday season while maintaining full social distancing precautions in all warehouses.

Commenting on the results, CEO Heather Reisman said: “Despite the unparalleled challenges we faced in the first quarter, we are extremely pleased with the way our entire organization adapted to the unprecedented demands to both adjust the business and meet the needs of our customers. We are also buoyed by the level of customer engagement with us. This uniquely disruptive period has driven significant customer acquisition, *plum* member sign ups and encouraged our loyal customers to further embrace our digital experience, signifying the strength of our brand. We have no doubt we will emerge stronger than ever when the clouds of COVID-19 are lifted.”

During the quarter, the Company also reduced discretionary spending and workforce size to better align to the current environment. These actions helped absorb the impact of lost sales to profitability, resulting in a decrease in adjusted EBITDA (see "Non-IFRS Measures" below) of only \$7.6 million dollars compared to the first quarter of last year. Indigo reported a net loss of \$31.6 million (\$1.15 net loss per common share) compared to a net loss of \$19.1 million (\$0.69 net loss per common share) last year.

In August 2020, to enhance the Company's financial flexibility the Company closed on a \$25 million, interest free revolving credit facility from a company controlled by Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo.

Key COVID-19 developments in the first quarter of fiscal 2021:

- Engaged with all landlords for rent relief to ensure the burden of COVID-19 is fairly shared.
- Implemented full social distancing in all warehouses.
- Opened all stores by the end of the quarter but curtailed hours remain in place, as does social distancing within stores.
- Launched curbside pick-up to alleviate demand on distribution centres and protect the health and safety of the Company's customers, employees and communities.
- Increased investment in digital to ensure full ability to continue to drive the opportunities in this channel.

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 7th, 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 92338685.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on August 14, 2020. The call playback can be accessed after 11:00 a.m. (ET) on August 7, 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 338685#. 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, specifically 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.

For additional context see “Results of Operations” and “Non-IFRS Financial Measures” in the Management's Discussion and Analysis (which can be found at www.indigo.ca/investor-relations or www.sedar.com).

About Indigo Books & Music Inc.

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (IDG). Indigo’s Cultural Department Store™, is the world’s first physical and digital meeting place inspired by and filled with books, music, art, ideas, and 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. 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 June 27, 2020 | As at June 29, 2019 | As at March 28, 2020 |
|---|---------------------------|---------------------------|----------------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 110,563 | 52,344 | 120,473 |
| Short-term investments | - | 38,000 | - |
| Accounts receivable | 24,872 | 12,325 | 7,640 |
| Inventories | 218,124 | 241,868 | 241,812 |
| Prepaid expenses | 6,747 | 7,652 | 6,062 |
| Income taxes receivable | 138 | 573 | 138 |
| Derivative assets | 1,622 | - | 3,794 |
| Other assets | 2,271 | 871 | 2,320 |
| Total current assets | 364,337 | 353,633 | 382,239 |
| Loan receivable | 446 | - | 446 |
| Property, plant, and equipment, net | 87,008 | 122,362 | 91,215 |
| Right-of-use assets, net | 372,360 | 392,748 | 382,146 |
| Intangible assets, net | 23,055 | 31,743 | 24,571 |
| Equity investment, net | 2,353 | 3,588 | 2,353 |
| Deferred tax assets | - | 92,797 | - |
| Total assets | 849,559 | 996,871 | 882,970 |
| LIABILITIES AND EQUITY | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 175,130 | 154,886 | 164,294 |
| Unredeemed gift card liability | 51,320 | 48,794 | 51,673 |
| Provisions | 2,203 | 200 | 2,034 |
| Deferred revenue | 10,718 | 7,897 | 10,682 |
| Short-term lease liabilities | 65,260 | 65,914 | 68,402 |
| Derivative liabilities | - | 924 | - |
| Total current liabilities | 304,631 | 278,615 | 297,085 |
| Long-term accrued liabilities | 950 | 1,877 | 1,196 |
| Long-term provisions | 672 | 45 | 469 |
| Long-term lease liabilities | 492,701 | 471,529 | 500,215 |
| Total liabilities | 798,954 | 752,066 | 798,965 |
| Equity | | | |
| Share capital | 226,986 | 225,531 | 226,986 |
| Contributed surplus | 13,197 | 13,048 | 12,822 |
| Retained earnings (deficit) | (190,404) | 7,127 | (158,801) |
| Accumulated other comprehensive income (loss) | 826 | (901) | 2,998 |
| Total equity | 50,605 | 244,805 | 84,005 |
| Total liabilities and equity | 849,559 | 996,871 | 882,970 |

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

| (thousands of Canadian dollars, except per share data) | 13-week period ended June 27, 2020 | 13-week period ended June 29, 2019 |
|---|---|---|
| Revenue | 135,081 | 192,556 |
| Cost of sales | (96,944) | (108,682) |
| Gross profit | 38,137 | 83,874 |
| Operating, selling, and other expenses | (63,456) | (103,571) |
| Operating loss | (25,319) | (19,697) |
| Net interest expense | (6,284) | (5,424) |
| Share of loss from equity investments | - | (773) |
| Loss before income taxes | (31,603) | (25,894) |
| Income tax recovery | - | 6,824 |
| Net loss | (31,603) | (19,070) |
| Other comprehensive 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 0; 2019 - 368] | (909) | (1,004) |
| Reclassification of net realized gain [net of taxes of 0; 2019 - 167] | (1,263) | (455) |
| Other comprehensive loss | (2,172) | (1,459) |
| Total comprehensive loss | (33,775) | (20,529) |
| Net loss per common share | | |
| Basic | (\$1.15) | (\$0.69) |
| Diluted | (\$1.15) | (\$0.69) |

Consolidated Statements of Cash Flows

(Unaudited)

| (thousands of Canadian dollars) | 13-week period ended June 27, 2020 | 13-week period ended June 29, 2019 |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | (31,603) | (19,070) |
| Adjustments to reconcile net loss to cash flows from (used for) operating activities | | |
| Depreciation of property, plant, and equipment | 4,591 | 5,932 |
| Depreciation of right-of-use assets | 10,652 | 9,833 |
| Amortization of intangible assets | 3,208 | 3,266 |
| Loss on disposal of capital assets | 247 | 461 |
| Share-based compensation | 300 | 248 |
| Directors' compensation | 75 | 84 |
| Deferred income tax recovery | - | (6,824) |
| Rent concessions | (2,411) | - |
| Other | 259 | 256 |
| Net change in non-cash working capital balances related to operations | 16,466 | (17,453) |
| Interest expense | 6,498 | 6,077 |
| Interest income | (214) | (653) |
| Share of loss from equity investments | - | 773 |
| Cash flows from (used for) operating activities | 8,068 | (17,070) |
| INVESTING ACTIVITIES | | |
| Net purchases of property, plant, and equipment | (498) | (2,849) |
| Addition of intangible assets | (1,705) | (2,482) |
| Change in short-term investments | - | 49,150 |
| Interest received | 214 | 653 |
| Cash flows from (used for) investing activities | (1,989) | 44,472 |
| FINANCING ACTIVITIES | | |
| Repayment of principal on lease liabilities | (9,232) | (10,013) |
| Interest paid | (6,498) | (6,078) |
| Cash flows used for financing activities | (15,730) | (16,091) |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (259) | (257) |
| Net increase (decrease) in cash and cash equivalents during the period | (9,910) | 11,054 |
| Cash and cash equivalents, beginning of period | 120,473 | 41,290 |
| Cash and cash equivalents, end of period | 110,563 | 52,344 |

Non-IFRS Financial Measures

The following table reconciles adjusted EBITDA to loss before income taxes, the most comparable IFRS measure:

| (millions of Canadian dollars) | 13-week period ended June 27, 2020 | 13-week period ended June 29, 2019 |
|---|---|---|
| Revenue | 135.1 | 192.6 |
| Cost of sales | (96.9) | (108.7) |
| Cost of operations | (32.1) | (58.7) |
| Selling, administrative and other expenses | (12.6) | (25.4) |
| Depreciation of right-of-use assets | (10.7) | (9.8) |
| Finance charges related to leases | (6.5) | (6.1) |
| Adjusted EBITDA¹ | (23.7) | (16.1) |
| Depreciation of property, plant and equipment | (4.6) | (5.9) |
| Amortization of intangible assets | (3.2) | (3.3) |
| Loss on disposal of capital assets | (0.2) | (0.5) |
| Net interest income | 0.2 | 0.7 |
| Share of loss from equity investments | - | (0.8) |
| Loss before income taxes | (31.6) | (25.9) |

¹ Earnings before interest, taxes, depreciation, amortization, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges.