

Indigo Reports FY23 First Quarter Financial Results - Indigo delivers strong sales and continues investment in omnichannel strategy to fuel future growth

TORONTO, ON – August 10, 2022 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book and lifestyle retailer, reported financial results for the 13-week period ended July 2, 2022 compared to the 13-week period ended July 3, 2021.

Revenue increased \$32.5 million, or 18.9%, to \$204.6 million compared to \$172.1 million in the prior year, exceeding the Company's top-line first quarter performance in the preceding three fiscal years. The Company's total sales growth was driven by the success of Indigo's omnichannel business; a strong recovery in the retail channel where traffic levels continued to normalize, and an ecommerce business that sustained incremental growth of 80% of fiscal 2020 levels. Double-digit growth was generated in both the print and general merchandise businesses. The print business continued to benefit from a resurgence of reading, which the Company has leveraged through the launch of a partnership with TikTok Canada, to further capitalize on the popularity of reading on the platform (#BookTok). The Company's top proprietary brands, OUI, NÓTA™ and LOVE & LORE®, continued to gain prominence in the general merchandise assortment, generating over 30% of the quarter's general merchandise revenue growth and demonstrating the increasing value of the Company's exclusive brand portfolio.

Commenting on the results, CEO Heather Reisman said: "We are pleased to see the positive sales growth, fueled by a steady improvement to store traffic and the continued success of our online business. Our strong customer commitment reinforces the decisions we are making to invest in talent and technology for future profitability".

Adjusted EBITDA for the quarter was a loss of \$19.2 million compared to a loss of \$14.9 million for the same period last year. This is inclusive of the impact of external COVID-19 support, which totalled \$1.0 million in the first quarter, compared to \$7.3 million in the first quarter of the prior year. Unfortunately, current macro-economic conditions had a negative impact on margins and costs given supply chain disruptions, higher freight costs and inflationary pressures. The Company also incurred additional costs with investment in technology aimed at driving productivity and growth. These factors impacted the net loss position, which changed by \$3.5 million to a net loss of \$25.4 million (\$0.91 net loss per basic common share), compared to a net loss of \$21.9 million (\$0.79 net loss per basic common share) in the prior year, which is inclusive of the impact of the above-noted COVID-19 support received.

Analyst/Investor Call

Indigo will host a conference call for analysts and investors to review these results at 10:00 a.m. (Eastern Time) tomorrow, August 11th, 2022. The call can be accessed by dialing 416-764-8659 from within the Toronto area, or 1-888-664-6392 outside of Toronto. The eight-digit participant code is 50738052.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on August 18th, 2022. The call playback can be accessed after 12:00 p.m. (ET) on August 11th, 2022, 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 738052 #. 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, which include geopolitical events such as war, acts of terrorism, and civil disorder and the adverse impacts of inflationary pressures; 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 2, 2022 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 news 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 is Canada’s leading book and lifestyle retailer, offering a curated assortment of books, gifts, baby, kids, wellness and lifestyle products, that support their customers every day and at key life stages by simplifying their journey to live with intention. 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.

The Company supports a separate registered charity, called the Indigo Love of Reading Foundation (the "Foundation"), which is committed to addressing educational inequality, and more specifically the literacy crisis in Canada. The Foundation runs two annual national granting programs: the Literacy Fund Grant, which is a multi-year grant provided to high-needs schools across the country; and the Adopt a School program, a grassroots fundraising initiative that unites Indigo, its retail stores, Indigo's staff, local schools, and their communities. In the wake of the COVID-19 pandemic and the unprecedented nation-wide school closures, the Foundation committed \$1.0 million to provide books to families in need. With the support of the Company, its customers, employees, and suppliers, the Foundation has committed over \$35.0 million to more than 3,500 high-needs elementary schools across Canada since 2004. The Foundation is dedicated to raising awareness about the critical importance of children's literacy while providing essential literary support to high-needs children across Canada.

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

For further information, please contact:

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Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	As at July 2, 2022	As at July 3, 2021	As at April 2, 2022
ASSETS			
Current			
Cash and cash equivalents	43,168	81,412	86,469
Accounts receivable	15,403	20,253	12,941
Inventories	288,184	221,389	273,849
Prepaid expenses	7,971	10,005	13,508
Derivative assets	1,431	—	—
Other assets	1,644	1,752	3,246
Total current assets	357,801	334,811	390,013
Property, plant, and equipment, net	62,613	73,925	64,319
Right-of-use assets, net	322,450	350,207	333,767
Intangible assets, net	24,459	19,604	21,171
Equity investment, net	97	2,156	97
Total assets	767,420	780,703	809,367
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	170,102	159,931	178,138
Unredeemed gift card liability	64,578	59,300	62,653
Provisions	531	2,455	472
Deferred revenue	21,367	16,139	20,699
Short-term lease liabilities	69,679	67,240	69,100
Derivative liabilities	47	1,572	631
Total current liabilities	326,304	306,637	331,693
Long-term accrued liabilities	991	1,615	1,068
Long-term provisions	744	678	702
Long-term lease liabilities	435,211	470,684	448,084
Total liabilities	763,250	779,614	781,547
Equity			
Share capital	227,090	226,999	227,090
Contributed surplus	14,861	14,066	14,618
Retained deficit	(238,810)	(238,614)	(213,403)
Accumulated other comprehensive income (loss)	1,029	(1,362)	(485)
Total equity	4,170	1,089	27,820
Total liabilities and equity	767,420	780,703	809,367

Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended July 2, 2022	13-week period ended July 3, 2021
Revenue	204,556	172,080
Cost of sales	(122,808)	(101,643)
Gross profit	81,748	70,437
Operating, selling, and other expenses	(101,343)	(86,424)
Operating loss	(19,595)	(15,987)
Net interest expense	(6,179)	(5,959)
Loss before income taxes	(25,774)	(21,946)
Income tax recovery	367	—
Net loss	(25,407)	(21,946)
Other comprehensive income		
Items that are or may be reclassified subsequently to net loss, net of taxes:		
Change in fair value of cash flow hedges	1,890	(1,278)
Reclassification of realized loss (gain)	(242)	1,328
Foreign currency translation adjustment	(134)	108
Other comprehensive income	1,514	158
Total comprehensive loss	(23,893)	(21,788)
Net loss per common share		
Basic	\$ (0.91)	\$ (0.79)
Diluted	\$ (0.91)	\$ (0.79)

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	13-week period ended July 2, 2022	13-week period ended July 3, 2021
OPERATING ACTIVITIES		
Net loss	(25,407)	(21,946)
Adjustments to reconcile net loss to cash flows from operating activities		
Depreciation of property, plant, and equipment	3,976	4,039
Depreciation of right-of-use assets	10,479	10,121
Amortization of intangible assets	2,736	3,303
Loss on disposal of capital assets	6	14
Share-based compensation	243	288
Deferred income tax recovery	(367)	—
Other	(152)	(753)
Net change in non-cash working capital balances related to operations	(15,077)	14,193
Interest expense	6,357	6,257
Interest income	(178)	(298)
Cash flows from (used for) operating activities	(17,384)	15,218
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	(2,091)	(839)
Addition of intangible assets	(6,024)	(1,991)
Proceeds from disposal of equity investment	—	516
Interest received	178	298
Cash flows used for investing activities	(7,937)	(2,016)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities	(11,636)	(10,705)
Interest paid	(6,357)	(6,257)
Proceeds from share issuances	—	9
Cash flows used for financing activities	(17,993)	(16,953)
Effect of foreign currency exchange rate changes on cash and cash equivalents	13	228
Net decrease in cash and cash equivalents during the period	(43,301)	(3,523)
Cash and cash equivalents, beginning of period	86,469	84,935
Cash and cash equivalents, end of period	43,168	81,412

Non-IFRS Financial Measures

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

(millions of Canadian dollars)	13-week period ended July 2, 2022		13-week period ended July 3, 2021	
	2022	% Revenue	2021	% Revenue
Revenue	204.6	100.0	172.1	100.0
Cost of sales	(122.8)	60.0	(101.6)	59.0
Cost of operations	(56.8)	27.8	(47.0)	27.3
Selling, general and administrative expenses	(27.3)	13.3	(22.0)	12.8
Depreciation of right-of-use assets	(10.5)	5.1	(10.1)	5.9
Finance charges related to leases	(6.4)	3.1	(6.3)	3.7
Adjusted EBITDA¹	(19.2)	9.4	(14.9)	8.7
Depreciation of property, plant and equipment	(4.0)	2.0	(4.0)	2.3
Amortization of intangible assets	(2.7)	1.3	(3.3)	1.9
Net interest income	0.2	0.1	0.3	0.2
Loss before income taxes	(25.8)	12.6	(21.9)	12.7

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