

Indigo Reports FY23 Second Quarter Financial Results - Indigo delivers strong sales, fueled by the general merchandise business which achieved record revenue outside of a holiday sales quarter

TORONTO, ON – November 9, 2022 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book and lifestyle retailer, reported financial results for the 13-week period ended October 1, 2022 compared to the 13-week period ended October 2, 2021.

The Company recognized total revenue of \$236.2 million in the quarter. In the prior year, the Company recognized total revenue of \$238.8 million, which was inclusive of a one-time payment of \$17.0 million from the renegotiation of its partnership with a café vendor. Merchandise sales, the total of retail and online sales and excluding other revenues, were a record high of any second quarter for the Company.

Top-line performance was driven by the continued recovery of the retail channel, which for the first time since the onset of the COVID-19 pandemic, achieved sales that exceeded the last comparable pre-pandemic quarter. This was accomplished despite reduced traffic levels, which continued to normalize but still remain challenged. The online channel maintained momentum, sustaining growth levels of over 84% to the comparable pre-pandemic quarter.

Sales results reflect an evolved assortment strategy that is resonating with customers. The Company's general merchandise business achieved the highest ever revenue outside of a holiday sales quarter, demonstrating the Company's success at scaling this important business line. The baby and lifestyle product categories, including home and wellness, achieved double-digit growth, buoyed by the continued success of Indigo's proprietary brand portfolio. Sales further benefited from the resilience of the print business, which continued to see growth in fiction categories, fueled by a younger demographic of readers.

Commenting on the results, CEO Peter Ruis said: "We are pleased to achieve record merchandise sales, demonstrating the strength of our assortment and customers' affinity for the Indigo brand. We look to continue to scale our top-line business moving forward, while managing the headwinds created by the current macro-economic environment. I'd also like to share that we recently publicly released our Climate Report, and are proud of our progress towards sustainability and becoming a net-zero company."

Adjusted EBITDA for the quarter was a loss of \$10.6 million compared to earnings of \$10.6 million for the same period last year. The prior year results benefited from the above mentioned \$17.0 million one-time payment on the renegotiation with a café vendor and external COVID-19 support of \$2.0 million. Current macro-economic conditions had a negative impact on costs, including \$1.8 million of incremental international freight in the quarter, as well as other inflationary pressures. The penetration of promotions had also increased since peak pandemic,

when the Company had elevated full-priced sell through rates. Additional investments were also made in technology and marketing initiatives in the quarter, aimed at furthering sales momentum and driving productivity and growth. These factors impacted the net loss position, which changed by \$19.4 million to a loss of \$15.9 million (\$0.57 net loss per basic common share) compared to net earnings of \$3.5 million (\$0.13 net earnings per basic common share) in the prior year.

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, November 10th, 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 30095746.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on November 17th, 2022. The call playback can be accessed after 12:00 p.m. (ET) on November 10th, 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 095746 #. 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 October 1, 2022	As at October 2, 2021	As at April 2, 2022
ASSETS			
Current			
Cash and cash equivalents	22,635	71,905	86,469
Accounts receivable	14,708	19,239	12,941
Inventories	379,713	317,458	273,849
Prepaid expenses	7,891	15,847	13,508
Derivative assets	7,041	353	—
Other assets	1,323	1,071	3,246
Total current assets	433,311	425,873	390,013
Property, plant, and equipment, net	59,068	69,999	64,319
Right-of-use assets, net	317,850	332,954	333,767
Intangible assets, net	28,601	20,079	21,171
Equity investment, net	—	2,156	97
Total assets	838,830	851,061	809,367
LIABILITIES AND EQUITY (DEFICIT)			
Current			
Accounts payable and accrued liabilities	246,452	247,932	178,138
Related party credit facility	20,000	—	—
Unredeemed gift card liability	57,021	52,570	62,653
Provisions	575	2,206	472
Deferred revenue	21,056	19,838	20,699
Short-term lease liabilities	69,583	64,306	69,100
Derivative liabilities	—	—	631
Total current liabilities	414,687	386,852	331,693
Long-term accrued liabilities	840	1,190	1,068
Long-term provisions	764	633	702
Long-term lease liabilities	430,095	455,629	448,084
Total liabilities	846,386	844,304	781,547
Equity (deficit)			
Share capital	227,090	227,026	227,090
Contributed surplus	15,033	14,372	14,618
Retained deficit	(254,709)	(235,074)	(213,403)
Accumulated other comprehensive income (loss)	5,030	433	(485)
Total equity (deficit)	(7,556)	6,757	27,820
Total liabilities and equity (deficit)	838,830	851,061	809,367

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

(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended October 1, 2022	13-week period ended October 2, 2021	26-week period ended October 1, 2022	26-week period ended October 2, 2021
Revenue	236,247	238,814	440,803	410,894
Cost of sales	(140,762)	(128,813)	(263,570)	(230,456)
Gross profit	95,485	110,001	177,233	180,438
Operating, selling, and other expenses	(106,666)	(100,437)	(208,009)	(186,861)
Operating profit (loss)	(11,181)	9,564	(30,776)	(6,423)
Net interest expense	(6,217)	(6,118)	(12,396)	(12,077)
Earnings (loss) before income taxes	(17,398)	3,446	(43,172)	(18,500)
Income tax recovery	1,499	94	1,866	94
Net earnings (loss)	(15,899)	3,540	(41,306)	(18,406)
Other comprehensive income				
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:				
Change in fair value of cash flow hedges	4,848	1,504	6,738	226
Reclassification of realized loss (gain)	(690)	326	(932)	1,654
Foreign currency translation adjustment	(156)	(35)	(291)	73
Other comprehensive income	4,002	1,795	5,515	1,953
Total comprehensive earnings (loss)	(11,897)	5,335	(35,791)	(16,453)
Net earnings (loss) per common share				
Basic	\$ (0.57)	\$ 0.13	\$ (1.49)	\$ (0.66)
Diluted	\$ (0.57)	\$ 0.13	\$ (1.49)	\$ (0.66)

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	13-week period ended October 1, 2022	13-week period ended October 2, 2021	26-week period ended October 1, 2022	26-week period ended October 2, 2021
OPERATING ACTIVITIES				
Net earnings (loss)	(15,899)	3,540	(41,306)	(18,406)
Adjustments to reconcile net earnings (loss) to cash flows from (used for) operating activities				
Depreciation of property, plant and equipment	3,967	4,012	7,943	8,051
Depreciation of right-of-use assets	10,586	9,027	21,065	19,148
Amortization of intangible assets	3,091	3,181	5,827	6,484
Loss on disposal of capital assets	68	16	74	30
Gain on disposal of equity investment	(186)	—	(186)	—
Share-based compensation	172	313	415	601
Deferred income tax recovery	(1,499)	(94)	(1,866)	(94)
Other	(248)	149	(400)	(604)
Net change in non-cash working capital balances related to operations	(22,038)	(15,965)	(37,115)	(1,772)
Interest expense	6,371	6,237	12,728	12,494
Interest income	(154)	(119)	(332)	(417)
Cash flows from (used for) operating activities	(15,769)	10,297	(33,153)	25,515
INVESTING ACTIVITIES				
Net purchases of property, plant, and equipment	(71)	(184)	(2,162)	(1,023)
Addition of intangible assets	(7,234)	(3,657)	(13,258)	(5,648)
Proceeds from disposal of equity investments	283	—	283	516
Interest received	154	119	332	417
Cash flows used for investing activities	(6,868)	(3,722)	(14,805)	(5,738)
FINANCING ACTIVITIES				
Repayment of principal on lease liabilities	(11,617)	(10,338)	(23,253)	(21,043)
Interest paid	(6,371)	(6,237)	(12,728)	(12,494)
Related party credit facility	20,000	—	20,000	—
Proceeds from share issuances	—	20	—	29
Cash flows from (used for) financing activities	2,012	(16,555)	(15,981)	(33,508)
Effect of foreign currency exchange rate changes on cash and cash equivalents	92	473	105	701
Net decrease in cash and cash equivalents during the period	(20,533)	(9,507)	(63,834)	(13,030)
Cash and cash equivalents, beginning of period	43,168	81,412	86,469	84,935
Cash and cash equivalents, end of period	22,635	71,905	22,635	71,905

Non-IFRS Financial Measures

The following table reconciles Adjusted EBITDA to net earnings (loss) before income taxes, the most comparable IFRS measure:

(millions of Canadian dollars)	13-week period ended October 1, 2022	13-week period ended October 2, 2021	26-week period ended October 1, 2022	26-week period ended October 2, 2021
Revenue	236.2	238.8	440.8	410.9
Cost of sales	(140.8)	(128.8)	(263.6)	(230.5)
Cost of operations	(63.7)	(59.6)	(120.5)	(106.6)
Selling, general and administrative expenses	(25.4)	(24.6)	(52.8)	(46.6)
Depreciation of right-of-use assets	(10.6)	(9.0)	(21.1)	(19.1)
Finance charges related to leases	(6.4)	(6.2)	(12.7)	(12.5)
Adjusted EBITDA¹	(10.6)	10.6	(29.8)	(4.4)
Depreciation of property, plant and equipment	(4.0)	(4.0)	(7.9)	(8.1)
Amortization of intangible assets	(3.1)	(3.2)	(5.8)	(6.5)
Loss on disposal of capital assets	(0.1)	—	(0.1)	—
Gain on disposal of equity investment	0.2	—	0.2	—
Net interest income	0.2	0.1	0.3	0.4
Earnings (loss) before income taxes	(17.4)	3.5	(43.2)	(18.6)

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.