

## Indigo Reports FY23 Third Quarter Financial Results

**Indigo delivers Q3 net earnings of \$34.3M and Adjusted EBITDA of \$40.8M**

**TORONTO, ON – February 9, 2023** -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book and lifestyle retailer, reported financial results for the 13-week period ended December 31, 2022 compared to the 13-week period ended January 1, 2022.

Following strong top-line performance in the first half of the fiscal year, sales for the third quarter reflected the pressures of the current macro-economic environment. The Company recognized total revenue of \$422.7 million in the quarter, compared to \$430.7 million in the same period last year, a decrease of 1.9%. While softer demand adversely impacted sales in the beginning of the quarter, the Company generated revenue growth from Black Friday onward. In the retail channel, where December sales exceeded the prior year, the Company also achieved a record-breaking Boxing week.<sup>1</sup> The online channel, which experienced a decline compared to the prior year, sustained 63% sales growth to the comparable pre-pandemic quarter and had a record-breaking Black Friday.

The Company delivered growth in its general merchandise business, demonstrating the ongoing success of an evolving product assortment. Double-digit growth was achieved in the baby, toys and wellness categories. Despite revenue declining year-over-year, the print business grew in sales and market share relative to the comparable pre-pandemic period.<sup>2</sup>

Commenting on the results, CEO Peter Ruis said: "Despite a recessionary external environment, we generated a creditable result as consumers cut back in response to the inflationary pressures. We continue to take strategic steps to increase productivity and generate sustainable and profitable growth. Our strength in the month of December demonstrates the power of our brand and Indigo's position as a key gifting destination for Canadians."

Adjusted EBITDA for the quarter was \$40.8 million compared to \$52.0 million in the same period last year. The impact of the current macro-economic environment extended past revenue, adversely effecting costs. The Company incurred increased cost of inventories, and incremental international freight, amongst other inflationary pressures. Customers shopped late, waiting for Black Friday deals. Adjusted EBITDA was further impacted by additional investment to support modernized ecommerce technology, as well as higher amortization of the Company's right-of-use assets, as the prior year amortization was reduced by lease modifications recognized. Net earnings for the quarter totaled \$34.3 million (\$1.23 net earnings per basic common share), compared to \$45.1 million (\$1.62 net earnings per basic common share) in the same period in the prior year.

<sup>1</sup> Historical data referencing fiscal 2013 onwards

<sup>2</sup> BookNet Canada

Indigo experienced a cybersecurity incident commencing on February 8th, 2023, resulting in internal operational disruptions and service disruptions to both the ecommerce and retail channels. The Company is working alongside third-party experts to resolve the situation and to understand if customer data has been accessed. Indigo's main priorities are to protect customer data, limit the operational and financial impacts of this incident and safely resume full operations as quickly as possible.

### **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, February 10<sup>th</sup>, 2023.

To join the conference call without operator assistance, you may register and enter your phone number at <https://bit.ly/3VZWege> to receive an instant automated call back.

The call can also be accessed through an operator by dialing 416-764-8659 from within the Toronto area, or 1-888-664-6392 outside of Toronto. The eight-digit participant code is 50832338.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on February 17<sup>th</sup>, 2023. The call playback can be accessed after 12:00 p.m. (ET) on February 10<sup>th</sup>, 2023, 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 832338#. The conference call transcript will be archived in the Investor Relations section of the Indigo website, [www.indigo.ca](http://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](http://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](http://www.indigo.ca/investor-relations) or [www.sedar.com](http://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](http://indigo.ca).

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## Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	As at December 31, 2022	As at January 1, 2022	As at April 2, 2022
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	149,961	189,872	86,469
Accounts receivable	29,721	18,223	12,941
Inventories	317,257	274,682	273,849
Prepaid expenses	7,267	6,579	13,508
Derivative assets	2,128	197	—
Other assets	3,681	3,520	3,246
<b>Total current assets</b>	<b>510,015</b>	<b>493,073</b>	<b>390,013</b>
Property, plant, and equipment, net	55,346	66,520	64,319
Right-of-use assets, net	308,526	335,378	333,767
Intangible assets, net	32,700	19,353	21,171
Equity investment, net	—	2,156	97
<b>Total assets</b>	<b>906,587</b>	<b>916,480</b>	<b>809,367</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	289,958	244,424	178,138
Unredeemed gift card liability	79,158	75,269	62,653
Provisions	569	1,481	472
Deferred revenue	22,876	22,197	20,699
Short-term lease liabilities	69,573	66,298	69,100
Derivative liabilities	—	27	631
<b>Total current liabilities</b>	<b>462,134</b>	<b>409,696</b>	<b>331,693</b>
Long-term accrued liabilities	876	1,048	1,068
Long-term provisions	784	649	702
Long-term lease liabilities	419,431	453,088	448,084
<b>Total liabilities</b>	<b>883,225</b>	<b>864,481</b>	<b>781,547</b>
<b>Equity</b>			
Share capital	227,094	227,069	227,090
Contributed surplus	15,242	14,338	14,618
Retained deficit	(220,455)	(189,954)	(213,403)
Accumulated other comprehensive income (loss)	1,481	546	(485)
<b>Total equity</b>	<b>23,362</b>	<b>51,999</b>	<b>27,820</b>
<b>Total liabilities and equity</b>	<b>906,587</b>	<b>916,480</b>	<b>809,367</b>

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

(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended December 31, 2022	13-week period ended January 1, 2022	39-week period ended December 31, 2022	39-week period ended January 1, 2022
<b>Revenue</b>	<b>422,728</b>	430,666	<b>863,531</b>	841,560
Cost of sales	<b>(256,031)</b>	(252,427)	<b>(519,601)</b>	(482,883)
<b>Gross profit</b>	<b>166,697</b>	178,239	<b>343,930</b>	358,677
Operating, selling, and other expenses	<b>(125,194)</b>	(127,079)	<b>(333,203)</b>	(313,940)
<b>Operating profit</b>	<b>41,503</b>	51,160	<b>10,727</b>	44,737
Net interest expense	<b>(5,947)</b>	(5,991)	<b>(18,343)</b>	(18,068)
<b>Earnings (loss) before income taxes</b>	<b>35,556</b>	45,169	<b>(7,616)</b>	26,669
Income tax recovery (expense)	<b>(1,302)</b>	(49)	<b>564</b>	45
<b>Net earnings (loss)</b>	<b>34,254</b>	45,120	<b>(7,052)</b>	26,714
<b>Other comprehensive income (loss)</b>				
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:				
Change in fair value of cash flow hedges	<b>(1,055)</b>	(110)	<b>5,683</b>	116
Reclassification of realized loss (gain)	<b>(2,555)</b>	(22)	<b>(3,487)</b>	1,632
Foreign currency translation adjustment	<b>61</b>	245	<b>(230)</b>	318
<b>Other comprehensive income (loss)</b>	<b>(3,549)</b>	113	<b>1,966</b>	2,066
<b>Total comprehensive earnings (loss)</b>	<b>30,705</b>	45,233	<b>(5,086)</b>	28,780
<b>Net earnings (loss) per common share</b>				
Basic	\$ <b>1.23</b>	\$ 1.62	\$ <b>(0.25)</b>	\$ 0.96
Diluted	\$ <b>1.22</b>	\$ 1.60	\$ <b>(0.25)</b>	\$ 0.94

## Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	13-week period ended December 31, 2022	13-week period ended January 1, 2022	39-week period ended December 31, 2022	39-week period ended January 1, 2022
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	34,254	45,120	(7,052)	26,714
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant and equipment	3,954	3,992	11,897	12,043
Depreciation of right-of-use assets	10,184	7,549	31,249	26,697
Amortization of intangible assets	1,642	2,785	7,469	9,269
Loss on disposal of capital assets	—	6	74	36
Gain on disposal of equity investment	—	—	(186)	—
Share-based compensation	210	(23)	625	578
Deferred income tax expense (recovery)	1,302	49	(564)	(45)
Other	1,572	942	1,172	338
Net change in non-cash working capital balances related to operations	113,222	71,310	76,107	69,538
Interest expense	6,282	6,123	19,010	18,617
Interest income	(335)	(132)	(667)	(549)
<b>Cash flows from operating activities</b>	<b>172,287</b>	<b>137,721</b>	<b>139,134</b>	<b>163,236</b>
<b>INVESTING ACTIVITIES</b>				
Net purchases of property, plant, and equipment	(232)	(523)	(2,394)	(1,546)
Addition of intangible assets	(5,741)	(2,059)	(18,999)	(7,707)
Proceeds from disposal of equity investments	—	—	283	516
Interest received	335	132	667	549
<b>Cash flows used for investing activities</b>	<b>(5,638)</b>	<b>(2,450)</b>	<b>(20,443)</b>	<b>(8,188)</b>
<b>FINANCING ACTIVITIES</b>				
Repayment of principal on lease liabilities	(11,472)	(10,273)	(34,725)	(31,316)
Interest paid	(6,282)	(6,123)	(19,010)	(18,617)
Proceeds from related party credit facility	5,000	—	25,000	—
Repayment of related party credit facility	(25,000)	—	(25,000)	—
Proceeds from share issuances	—	32	—	61
<b>Cash flows used for financing activities</b>	<b>(37,754)</b>	<b>(16,364)</b>	<b>(53,735)</b>	<b>(49,872)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,569)	(940)	(1,464)	(239)
<b>Net increase in cash and cash equivalents during the period</b>	<b>127,326</b>	<b>117,967</b>	<b>63,492</b>	<b>104,937</b>
Cash and cash equivalents, beginning of period	22,635	71,905	86,469	84,935
Cash and cash equivalents, end of period	149,961	189,872	149,961	189,872

## 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)	<b>13-week period ended December 31, 2022</b>	13-week period ended January 1, 2022	<b>39-week period ended December 31, 2022</b>	39-week period ended January 1, 2022
Revenue	<b>422.7</b>	430.7	<b>863.5</b>	841.6
Cost of sales	<b>(256.0)</b>	(252.4)	<b>(519.6)</b>	(482.9)
Cost of operations	<b>(78.4)</b>	(80.0)	<b>(198.9)</b>	(186.6)
Selling, general and administrative expenses	<b>(31.0)</b>	(32.7)	<b>(83.8)</b>	(79.3)
Depreciation of right-of-use assets	<b>(10.2)</b>	(7.5)	<b>(31.2)</b>	(26.7)
Finance charges related to leases	<b>(6.3)</b>	(6.1)	<b>(19.0)</b>	(18.6)
<b>Adjusted EBITDA<sup>1</sup></b>	<b>40.8</b>	52.0	<b>11.0</b>	47.5
Depreciation of property, plant and equipment	<b>(4.0)</b>	(4.0)	<b>(11.9)</b>	(12.0)
Amortization of intangible assets	<b>(1.6)</b>	(2.8)	<b>(7.5)</b>	(9.3)
Loss on disposal of capital assets	—	—	<b>(0.1)</b>	—
Gain on disposal of equity investment	—	—	<b>0.2</b>	—
Net interest income	<b>0.3</b>	0.1	<b>0.7</b>	0.5
<b>Earnings (loss) before income taxes</b>	<b>35.6</b>	45.2	<b>(7.6)</b>	26.7

<sup>1</sup> 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.