Indigo Reports FY23 Full-Year Results and Provides Update on Ransomware Attack

TORONTO, ON – June 27, 2023 -- Indigo Books & Music Inc. (TSX: IDG), Canada's leading book and lifestyle retailer, reported financial results for the 52-week period ended April 1, 2023 compared to the 52-week period ended April 2, 2022.

On February 8, 2023, the Company was the victim of a ransomware attack, resulting in internal operational disruptions and service disruptions to both sales channels. This had a material impact on sales and profitability in the fourth quarter and fiscal year, as further discussed below. The Company's ecommerce platforms were temporarily shut down, with the full website being restored after four weeks. The retail network was unable to process electronic payments for approximately three days and experienced other operational limitations that impacted the Company's ability to fulfil demand.

Revenue for the year totaled $1.058 billion, compared to $1.062 billion in the prior year, a decrease of $4.6 million or 0.4%. Prior year revenue was inclusive of a one-time payment of $17.0 million, resulting from the renegotiation of the Company's partnership with one of its café vendors. Merchandise sales, the total of retail and online sales and excluding other revenues, grew $4.6 million or 0.5% to $1.015 billion, compared to $1.010 billion in the prior year.

Merchandise sales growth was achieved despite the ransomware attack, which compounded the headwinds of an already challenging macro-economic environment. Customers' desire to shop in-store fuelled a rebounding retail channel, which in the Company's second quarter drove sales above pre-pandemic levels and in the third quarter delivered a record-breaking Boxing week.[1] Strong retail performance resulted in a shift in the sales channel mix, which coupled with the ransomware attack led to a year-over-year decline in online sales performance. However, the Company's ecommerce platforms sustained year-to-date sales growth of 71%, through January, compared to pre-pandemic fiscal 2020, demonstrating their importance as a lever of expansion and investment for the Company. The general merchandise business increased 5.8% in the current year, with double-digit growth in the paper, baby and wellness product categories. The print business declined by 3.7%, negatively impacted by system limitations from the ransomware attack which adversely affected the Company's ability to replenish its inventory levels.

Commenting on results, CEO Peter Ruis said: "This has been a turbulent year for Indigo, as the progress gained from our post-pandemic re-emergence was negatively impacted by adverse macro-economic factors. These headwinds were furthered by the ransomware attack in our fourth quarter. I am incredibly thankful for our incredible teams, who have been working tirelessly to bring operations back to normal. Through all of this, Indigo customers continued to show their loyalty to our brand, and we are proud to have achieved merchandise sales growth.

[1] Historical data referencing fiscal 2013 onwards

We are looking forward to injecting momentum back into the business in fiscal 2024 with the exciting launch of a new digital platform in the late Summer and our new flagship store at the Well, Toronto in September."

Adjusted EBITDA for the year was a loss of $20.5 million, compared to earnings of $32.5 million in the prior year. The ransomware attack caused an interruption to the Company's sales operations, the ultimate financial impact of which cannot be reasonably estimated at this time, however, the impact was material to fiscal 2023 sales, Adjusted EBITDA and net loss position. Adjusted EBITDA was further impacted by the macro-economic environment which drove increased cost of inventories and an incremental $5.5 million of international freight, amongst other inflationary pressures. The Company was challenged by higher shrink levels, which is consistent with industry trends, and incurred additional costs associated with the modernization of its ecommerce platforms.

Indigo maintains cyber insurance coverage and is in the process of working with its insurer to make claims under the policy. While the business interruption losses cannot be reasonable estimated at this time, the Company incurred $5.2 million of expenses as of April 1, 2023 which impacted the net loss position. Net loss for the year totalled $49.6 million ($1.78 net loss per basic common share) compared to net earnings of $3.3 million ($0.12 net earnings per basic common share) in the prior year.

Fourth quarter results were heavily impacted by the ransomware attack, driving a decrease in revenue of $26.5 million to $194.2 million for the quarter ended April 1, 2023, compared to revenue of $220.7 million in the prior year. This also accounted for the majority of the $19.1 million change in net loss position, which was a loss of $42.5 million compared to a loss of $23.4 million in the same period last year.

Indigo is also pleased to announce the appointment of Mr. Donald Lewtas, Mr. Joel Silver and Mr. Markus Dohle to its Board of Directors, with Mr. Lewtas and Mr. Silver joining the Audit Committee and Mr. Lewtas chairing the committee.

On June 27, 2023, the Company received a binding commitment with respect to a revolving line of credit facility with a related party, Trilogy Retail Holdings Inc. ("Trilogy"), as lender (the "Credit Facility"). The Credit Facility is for an aggregate principal amount of up to $45.0 million and, with the consent of Trilogy, the amount may be increased by up to $10.0 million. The Credit Facility will be used to finance the seasonal working capital and operational needs of the Company, will be issued on reasonable commercial terms, and will not be convertible, directly or indirectly, into equity or voting securities. The Credit Facility will be subject to the terms and conditions of the credit agreement anticipated to be entered into between the Company and Trilogy on or before July 31, 2023.

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, June 28th, 2023.

To join the conference call without operator assistance, you may register and enter your phone number at https://emportal.ink/3APm7Rs 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 73083952.

A playback of the call will also be available by telephone until 11:59 p.m. (ET) on July 5th, 2023. The call playback can be accessed after 12:00 p.m. (ET) on June 28th, 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 083952#. 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; ongoing impacts from the ransomware attack; 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 27, 2023 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, home, wellness, fashion, paper, baby and kids products, that support customers by simplifying their journey to *Living 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 annual national granting programs such as 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 addition, the Foundation provides resources including new books and learning materials, training and year-round curation support to help ensure teachers, education staff, school administrators and other key stakeholders have the tools they need to promote literacy in their communities. With the support of the Company, its customers, employees, and suppliers, the Foundation has committed over $35.0 million to more than 1,000,000 students across Canada since 2004. The Foundation is dedicated to giving back to communities in need, while at the same time raising awareness about the critical importance of children's literacy in Canada.

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

For further information please contact:
Melissa Perri
Senior Manager, Public Relations
MPerri@indigo.ca

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at April 1, 2023	As at April 2, 2022
ASSETS		
Current		
Cash and cash equivalents	**65,113**	86,469
Accounts receivable	**14,069**	12,941
Inventories	**244,063**	273,849
Prepaid expenses	**6,830**	13,508
Derivative assets	**699**	-
Other assets	**1,254**	3,246
Total current assets	**332,028**	390,013
Property, plant, and equipment, net	**52,464**	64,319
Right-of-use assets, net	**318,302**	333,767
Intangible assets, net	**35,287**	21,171
Equity investment, net	**-**	97
Total assets	**738,081**	809,367
LIABILITIES AND EQUITY (DEFICIT)		
Current		
Accounts payable and accrued liabilities	**169,860**	178,138
Unredeemed gift card liability	**66,887**	62,653
Provisions	**1,879**	472
Deferred revenue	**20,129**	20,699
Short-term lease liabilities	**69,161**	69,100
Derivative liabilities	**-**	631
Total current liabilities	**327,916**	331,693
Long-term accrued liabilities	**1,007**	1,068
Long-term provisions	**851**	702
Long-term lease liabilities	**428,284**	448,084
Total liabilities	**758,058**	781,547
Equity (deficit)		
Share capital	**227,094**	227,090
Contributed surplus	**15,463**	14,618
Retained deficit	**(262,969)**	(213,403)
Accumulated other comprehensive income (loss)	**435**	(485)
Total equity (deficit)	**(19,977)**	27,820
Total liabilities and equity (deficit)	**738,081**	809,367

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

(thousands of Canadian dollars, except per share data)	**52-week period ended April 1, 2023**	52-week period ended April 2, 2022
Revenue	**1,057,740**	1,062,250
Cost of sales	**(641,529)**	(619,212)
Gross profit	**416,211**	443,038
Operating, selling, and other expenses	**(442,005)**	(414,020)
Operating profit (loss)	**(25,794)**	29,018
Net interest expense	**(24,143)**	(23,694)
Share of loss from equity investment	**-**	(32)
Impairment loss from equity investment	**-**	(2,027)
Gain on sale of equity investment	**186**	-
Earnings (loss) before income taxes	**(49,751)**	3,265
Income tax recovery	**185**	-
Net earnings (loss)	**(49,566)**	3,265
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:		
Change in fair value of cash flow hedges	**5,705**	(639)
Reclassification of realized loss (gain)	**(4,559)**	1,630
Foreign currency translation adjustment	**(226)**	44
Other comprehensive income	**920**	1,035
Total comprehensive earnings (loss)	**(48,646)**	4,300
Net earnings (loss) per common share		
Basic	**$ (1.78)**	$ 0.12
Diluted	**$ (1.78)**	$ 0.12

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	**52-week period ended April 1, 2023**	52-week period ended April 2, 2022
OPERATING ACTIVITIES		
Net earnings (loss)	**(49,566)**	3,265
Adjustments to reconcile net earnings (loss) to cash flows from operating activities		
Depreciation of property, plant and equipment	**15,667**	16,006
Depreciation of right-of-use assets	**41,419**	36,144
Amortization of intangible assets	**9,898**	11,886
Loss on disposal of capital assets	**141**	29
Share-based compensation	**846**	864
Deferred income tax recovery	**(185)**	-
Share of loss from equity investment	**-**	32
Impairment loss from equity investment	**-**	2,027
Gain on sale of equity investment	**(186)**	-
Other	**1,417**	(328)
Net change in non-cash working capital balances related to operations	**34,209**	(12,338)
Interest expense	**25,573**	24,514
Interest income	**(1,430)**	(820)
Cash flows from operating activities	**77,803**	81,281
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	**(3,343)**	(3,248)
Addition of intangible assets	**(24,015)**	(12,143)
Proceeds from disposal of equity investment	**283**	1,032
Interest received	**1,430**	820
Cash flows used for investing activities	**(25,645)**	(13,539)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities	**(46,227)**	(41,641)
Interest paid	**(25,573)**	(24,514)
Proceeds from related party credit facility	**25,000**	-
Repayment of related party credit facility	**(25,000)**	-
Proceeds from share issuances	**3**	76
Cash flows used for financing activities	**(71,797)**	(66,079)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1,717)**	(129)
Net increase (decrease) in cash and cash equivalents during the period	**(21,356)**	1,534
Cash and cash equivalents, beginning of period	**86,469**	84,935

Cash and cash equivalents, end of period	**65,113**	86,469

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)	**52-week period ended April 1, 2023**	**% Revenue**	52-week period ended April 2, 2022	% Revenue
Revenue	**1,057.7**	**100.0**	1,062.3	100.0
Cost of sales	**(641.5)**	**60.7**	(619.2)	58.3
Cost of operations	**(262.8)**	**24.8**	(245.7)	23.1
Selling, general and administrative expenses	**(106.9)**	**10.1**	(104.3)	9.8
Depreciation of right-of-use assets	**(41.4)**	**3.9**	(36.1)	3.4
Finance charges related to leases	**(25.6)**	**2.4**	(24.5)	2.3
Adjusted EBITDA[1]	**(20.5)**	**1.9**	32.5	3.1
Depreciation of property, plant and equipment	**(15.7)**	**1.5**	(16.0)	1.5
Amortization of intangible assets	**(9.9)**	**0.9**	(11.9)	1.1
Loss on disposal of capital assets	**(0.1)**	**0.0**	0.0	0.0
Net interest income	**1.4**	**0.1**	0.8	0.1
Impairment loss from equity investment	**-**	**-**	(2.0)	0.2
Gain on sale of equity investment	**0.2**	**0.0**	-	-
Expenses from ransomware attack	**(5.2)**	**0.5**	-	-
Earnings (loss) before income taxes	**(49.8)**	**4.7**	3.3	0.3

[1] Earnings before interest, taxes, depreciation, amortization, asset disposals, income from equity investment, impairment, and certain non-recurring or unusual amounts, and includes IFRS 16 right-of-use asset depreciation and associated finance charges.