Final Results

QUARTO GROUP INCORPORATED

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Quarto Group Inc
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The Quarto Group Inc.
("Quarto", the "Company", or the "Group")

Final Results for the Year Ended 31 December 2020

The Quarto Group Inc. (LSE: QRT), the leading global illustrated book publisher, announces its audited results for the year ended 31 December 2020.

Results ($m)	2020	2019
Revenue	126.9	135.8
Adjusted Operating Profit[1]	10.6	10.0
Exceptional Items	(0.4)	(0.4)
Operating Profit	9.3	8.8
Adjusted Profit Before Tax[1]	7.9	5.1
Profit Before Tax	6.6	3.8
Profit for the Year	4.6	2.9
Adjusted Diluted Earnings per Share from continuing operations	14.1 c	18.8 c
Basic Earnings per Share from continuing operations	11.7 c	14.1 c
Net Debt[2]	19.7	50.5

[1] Adjusted items excludes the amortization of acquired intangibles and exceptional items.
[2] Net debt excludes lease liabilities relating to right of use assets (IFRS 16)

Operating Highlights

- Swift and prudent management action to minimize the impact of Covid 19
- Clear focus on enhanced profitability and cash generation
- Increase in Adjusted Operating Profit of 6% driven by improved margins and cost reductions
- Profit Before Tax up 71% at $6.6m with interest charges down $2.2m
- Net debt down 61% at $19.7m[2]
- "This Book is Anti-Racist" by Tiffany Jewell and Aurelia Durand became a #1 New York Times Bestseller ($1.2m)
- Open offer successfully completed in January 2020 raising $17.0m, net of expenses
- Banking facilities extended in February 2021 to 16 July 2024

Commenting on the results, Group Chief Executive Officer, Polly Powell said:

The Group returned to profitability in 2019, and the emphasis for the Board and Senior Management in 2020 was to maintain that position whilst focusing on cash generation in order to further improve the Group's financial position.

During 2020, the closure of high street outlets at various points in the year meant that the Group had a greater reliance on on-line retailers for both print and electronic books. In response, the publishing program was refined, in order to concentrate the Group's sales and marketing efforts on digital sales and those customers still able to trade such as the grocery supermarkets.

Tight cost controls were in place throughout the Group and the procurement of print, Quarto's biggest single expense, was under scrutiny.

Consequently, the Group ended the year with net debt at $19.7m, down 61% vs prior year (2019: $50.5m). As previously detailed, the success of the open offer of $17.0m allowed the Group to further stabilize its financial position. It was decided that a dividend would not be appropriate, until debt was further reduced.

Revenue declined by 7% to $126.9m (2019: $135.8m), operating profit increased by 6% to $9.3m (2019: $8.8m). Group profit increased to $4.6m after tax (2019: $2.9m). The strength of the balance sheet improved to $43.7m (2019: $21.1m).

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Quarto's LEI is 549300BJ2WPX3QUATW58

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About The Quarto Group

The Quarto Group (LSE: QRT) creates a wide variety of books and intellectual property products, with a mission to inspire life's experiences. Produced in many formats for adults, children and the whole family, our products are visually appealing, information rich and stimulating.

The Group encompasses a diverse portfolio of imprints and businesses that are creatively independent and expert in developing long-lasting content across specific niches of interest. Quarto sells and distributes its products globally in over 50 countries and 40 languages, through a variety of sales channels, partnerships and routes to market.

Quarto employs c.300 talented people in the US and the UK. The group was founded in London in 1976. It is domiciled in the US and listed on the London Stock Exchange.

For more information, visit quarto.com or follow us on Twitter at @TheQuartoGroup.

Strategic Overview

The Company returned to profitability in 2019, and the emphasis for the Board and Senior Management in 2020 was to maintain that position whilst focusing on cash generation in order to further improve the Company's financial position. During 2020, the closure of high street outlets at various points in the year meant that the Company had a greater reliance on on-line retailers for both print and electronic books. In response, the publishing program was refined, in order to concentrate the Company's sales and marketing efforts on digital sales and those customers still able to trade such as the grocery supermarkets. Tight cost controls were in place throughout the Company and the procurement of print, Quarto's biggest single expense, was under scrutiny.

Consequently, the Company ended the year with net debt at $19.7m, down 61% vs prior year (2019: $50.5m). As previously detailed, the success of the open offer of $17.0m allowed the Company to further stabilize its financial position. It was decided that a dividend would not be appropriate, until debt was further reduced.

Revenue declined by 7% to $126.9m (2019: $135.8m), operating profit increased by 6% to $9.3m (2019: $8.8m). Company profit increased to $4.6m after tax (2019: $2.9m). The strength of the balance sheet improved to $43.7m (2019: $21.1m).

The success of the Little People, Big Dreams series continues unabated. Over 3.7 million copies have now been sold, with standout titles in 2020 being David Attenborough and Captain Tom. This Book is Anti-Racist reached number 1 on the New York Times Bestseller lists and produced over $1 million dollars of revenue. The Company reacted to its success by donating all revenue from the sales of its ebook edition of the book over the summer months to charity. Squishy Human Body continues to perform worldwide, with over 200,000 copies sold. Quarto's strongest selling titles in the US were Beautiful Boards and Modern Sourdough; in ANZ Epic Airfryer with over 67,000 copies sold was the Company's bestselling book.

Key Strategies

PUBLISHING STRATEGY

The Company will continue to pursue its path towards becoming a significant trade publisher in North America, the UK and ANZ. Its co-edition business remains an important firm-sale part of the business with long-standing publishing partnerships throughout the world. The realignment in 2020 of the children's imprints to create a complementary one-stop-shop of children's books - from baby books to educational titles for older learners - will become apparent in 2021. Among a number of initiatives, the new imprint Happy Yak will be launched, focusing on playful, mass-market children's books. The advent of home-learning during the pandemic has provided impetus to QED, the Quarto children's 'soft' educational imprint, with significant growth potential for on-line, high street and subscription box sales. IVY Kids is rebranded as the home of children's sustainable publishing, including the introduction of carbon offsetting, and is launching in 2021 with the book When We Went Wild by Isabella Tree. The Frances Lincoln imprint has always been at the forefront of diverse publishing, and will continue to challenge with titles such as This Book is Anti-Racist and I Am Not A Label.

The relaunch of the adult list Aurum, will allow Quarto to broaden its publishing remit out of the confines of purely illustrated books to include a new list of narrative non-illustrated non-fiction books. This development will also provide the opportunity to increase Quarto's ebook offering as well as the impetus to launch audio books in 2021. In the US, bestsellers including Modern Sourdough and Beautiful Boards, have strengthened Quarto's position in the market as a significant trade publisher. The niche imprints have benefited in particular from the popularity of hobbies during lockdown and will continue to focus on specific areas of home interest including gardening, cooking, craft and well-being. Becker & Mayer, the Quarto imprint that produces licensed books, will now publish its own titles, rather than selling properties onto third parties, thereby increasing flexibility and profitability. Smart Lab, the home of Squishy Human Body, has developed a number of new products that will be launched in 2021, and this area is targeted for significant growth.

Quarto's co-edition and custom businesses remained resilient in 2020 and will continue to be a significant part of the Company's international offering in 2021 and beyond. These parts of the business focus on generating new and re-use books for specific customers - both publishers and retailers. With new business opportunities, such as the growth of subscription boxes, this side of the business is in a good position to expand. Bright Press, based in the Brighton office, has introduced Bright Kids in order to capitalise on the growth of parental teaching which has become important in lockdown and beyond.

ENHANCING OUR IT INFRASTRUCTURE

We are enhancing our IT infrastructure to facilitate the transformation of Quarto. One of our key initiatives is to leverage AI platform to quickly identify trending topics. Traditionally, book publishing has been a creative business based on "gut instinct" and experience, but we believe the emergence of AI could complement Quarto's creative force and enable our editorial team to produce contents that are highly relevant to our customers.

Our digital transformation in the areas of print procurement and process automation has been a great success with significant savings made improving our bottom-line. We will continue to expand our transformation into other areas of our business including inventory, title & content management, and supply chain management.

IMPROVING OUR SUPPLY CHAIN

Supply chain is often overlooked but is a crucial part of the business. It will play an even more critical part in 2021, as COVID-19 has negatively impacted the global supply chain. The disruption of freight shipping has led to shipment delays and 300% increase in shipping costs. To counter further disruptions, we will take a flexible holistic supply chain approach and work closely with our logistics suppliers and network of onshore and offshore printers.

'BOLT-ON' ACQUISITIONS

Quarto has built its business through organic growth and a series of acquisitions. Our acquisition objective is to increase our market share in the six key categories: Cookery, Home and Garden, Art and Craft, Heritage, Children's, and Wellbeing. We will focus on 'bolt-on' acquisitions of publishers or imprints that could generate synergistic value by leveraging Quarto's procurement, operations, and sales platform.

COVID-19

The effects of COVID-19 on the book industry have been significant. As expected, we saw a move to online book sales, and the Company's sales and marketing teams adapted well to this move. Our experience indicated that books have been identified as an essential aid to education and entertainment during lockdown and most of those sales lost as a result of the closure of retail outlets have been replaced by on-line sales. The industry has remained solid in unpredictable times.

In light of the uncertainties presented by the Covid-19 pandemic, the 2020 publishing program was reduced as we focused on titles that would maximize revenue but also allow us to conserve cash. Through the prompt action of the board, the business was able to react to the changing environment and navigate our way through the challenge ahead.

During the year, the Group received financial support from the Governments in UK and USA. Any monies received or receivable are initially held as liabilities on the balance sheet. Grants are subsequently recognized in profit and loss when there is reasonable assurance that the grant will be received through compliance with grant conditions. Grants will be recognized net in the profit and loss account, on a systematic basis, over the same period during which the expenses, for which the grants were intended to compensate are recognized.

Quarto's staff have adapted well to working from home and there has been little interruption to workflow when the offices have had to close. The Company has taken the view that keeping the offices open, when allowed, is important for maintaining staff morale and wellbeing.

VIABILITY STATEMENT

In accordance with Provision 31 of the 2018 revision of the UK Corporate Governance Code, the Directors assessed the prospects of the Group over both a one-year and a three-year period. The one-year period has a greater level of certainty and was therefore, used to set budgets for all our businesses which culminated in the approval of a Group budget by the

Board. The directors have determined that the three-year period is an appropriate term over which to provide its viability statement, being aligned with both the publishing program cycle and the long-term incentives offered to Executive Directors and certain senior management.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2023, which comprise a detailed cash forecast for the period ending 31 December 2021 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2022 and 2023. This is to satisfy themselves of the going concern assumption used in preparing the financial statements and the Group's viability over a three-year period ending on 31 December 2023. As part of this work, the model was sensitized initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a severe but plausible scenario. The model was then flexed to a tolerance of 13%, at which point the banking covenants were breached. It is considered remote that such a reduction of revenue would occur, given, even with the challenges of 2020, revenue dropped by only 7% year on year.

In February 2021, the Group renewed its bank facilities, retiring the current syndicate. The new facility will have a term of 3 years and 5 months, allowing us a prolonged period of certainty. In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its new banking facilities and covenants.

In addition to the agreement to the new facility, 1010 Printing Limited (a subsidiary of the Lion Rock Group Limited) and C.K. Lau have agreed to extend the current $13m unsecured and subordinated loans to the Group, which were entered into on 31 October 2018, on identical terms to those originally entered into and on normal commercial terms. Furthermore, 1010 Printing Limited has agreed to provide a further $10m unsecured and subordinated loan to the Company on normal commercial terms. These unsecured and subordinated loans are repayable by 31 August 2024.

The Directors also took account of the principal risks and uncertainties facing the business referred to on pages 19 to 20. The review focused on the occurrence of severe but plausible scenarios in respect of the principal risks and considered the potential of these scenarios to threaten viability.

The key principal risk that the business faces is a downturn caused by a global recession. The financial impact of this downturn has been quantified to illustrate the Group's ability to manage the impact on liquidity and covenants, with sensitivity analysis on the key revenue growth assumptions and the effectiveness of available mitigating actions. Further impact on the Group from Covid-19 has additionally been considered as part of the Group's viability. In considering this analysis, the Directors took account of the mitigating actions forecast twelve months ago and the actual mitigating actions taken during the year, from the onset of the Covid-19 pandemic. These actions included reductions in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

Based on the above indications, after taking into account the downside scenario projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation and meet its liabilities throughout the viability period to 31 December 2023.

OUTLOOK

Quarto is in a good position to grow in 2021. The gradual return of the high-street bookshop, gift outlets and heritage sites from Easter onwards will revive bricks-and-mortar retail sales, whilst on-line sales are not expected to diminish from their already high levels. The supply chain remains a challenge for books being imported from the Far East. However, it is likely that once ships and containers are in the right place, from late spring onwards, both supply and price will edge towards normal levels. Quarto's continuing shift towards profitable trade publishing, and the ever-present appetite for children's books in particular, puts the Company on firm footing for the future. With an emphasis on technology, and what it can do for book publishing in particular, the Company's outlook is bright.

THE QUARTO GROUP, INC.
Condensed Consolidated Income Statement
For the year ended 31 December 2020

	Note	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Continuing operations			
Revenue	2	126,883	135,807
Cost of sales		(89,298)	(97,782)
Gross profit		37,585	38,025
Distribution costs		(7,132)	(7,527)
Impairment of financial assets		(1,571)	(853)
Administrative expenses		(18,264)	(19,641)
Operating profit before amortisation of acquired intangibles and exceptional items		**10,618**	**10,004**
Amortisation of acquired intangibles		(890)	(811)
Exceptional items	3	(446)	(419)
Operating profit	2	**9,282**	**8,774**

Finance income		-	9
Finance costs	4	(2,693)	(4,939)
Profit before tax		**6,589**	**3,844**
Tax	5	(2,020)	(962)
Profit for the year		**4,569**	**2,882**
Attributable to:			
Owners of the parent		**4,569**	**2,882**
Earnings per share (cents)			
From continuing operations			
Basic	6	11.7	14.1
Diluted	6	11.6	14.0

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Year ended 31 December 2020	Year ended 31 December 2019
	$'000	$'000
Profit for the year	4,569	2,882
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	1,087	403
Cash flow hedge: (losses) arising during the year	-	(105)
Tax relating to items that may be reclassified to profit or loss	54	(162)
Total other comprehensive income	1,141	136
Total comprehensive income for the year net of tax	5,710	3,018
Attributable to:		
Owners of the parent	5,710	3,018

THE QUARTO GROUP, INC.
Condensed Consolidated Balance Sheet
At 31 December 2020

	Note	31 December 2020	31 December 2019
		$'000	$'000
Non-current assets			
Goodwill	7	19,381	19,192
Other intangible assets		159	1,282
Property, plant and equipment		6,818	10,883
Intangible assets: Pre-publication costs	8	40,913	48,697
Deferred tax assets		3,604	3,331
Total non-current assets		70,875	83,385
Current assets			
Inventories		15,465	19,378
Trade and other receivables		44,519	46,397
Cash and cash equivalents		22,079	15,621
Total current assets		82,063	81,396
Total assets		152,938	164,781

Current liabilities		
Short term borrowings	(41,819)	(66,077)
Trade and other payables	(50,064)	(57,381)
Lease liabilities	(1,968)	(1,937)
Tax payable	(4,355)	(2,831)
Total current liabilities	(98,206)	(128,226)
Non-current liabilities		
Deferred tax liabilities	(6,323)	(7,139)
Tax payable	(386)	(433)
Lease liabilities	(4,310)	(7,929)
Total non-current liabilities	(11,019)	(15,501)
Total liabilities	**(109,225)**	**(143,727)**
Net assets	**43,713**	**21,054**
Equity		
Share capital	4,089	2,045
Paid in surplus	48,701	33,764
Retained earnings and other reserves	(9,077)	(14,755)
Total equity	**43,713**	**21,054**

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Retained earnings	**Equity attributable to owners of the parent**
	$000	$000	$000	$000	$000	**$000**
Balance at 1 January 2019	2,045	33,764	105	(6,989)	(10,937)	**17,988**
Profit for the year	-	-	-	-	2,882	**2,882**
Foreign exchange translation differences	-	-	**-**	403	-	**403**
Cash flow hedge: gains arising during the year	-	-	(105)	-	-	**(105)**
Tax relating to items that may be reclassified to profit or loss	-	-	-	(162)	-	**(162)**
Total comprehensive income for the year	**-**	**-**	**(105)**	**241**	**2,882**	**3,018**
Share based payments charge	-	-	-	-	48	**48**
Balance at 31 December 2019	**2,045**	**33,764**	**-**	**(6,748)**	**(8,007)**	**21,054**
Profit for the year	-	-	-	-	4,569	**4,569**
Foreign exchange translation differences	-	-	**-**	1,087	-	**1,087**
Tax relating to items that may be reclassified to profit or loss	-	-	-	54	-	**54**
Total comprehensive income for the year	**-**	**-**	**-**	**1,141**	**4,569**	**5,710**
Share capital raised	2,044	16,307	-	-	-	**18,351**
Costs of raising share capital	-	(1,370)	-	-	-	**(1,370)**
Share based payments credit	-	-	-	-	(32)	**(32)**
Balance at 31 December 2020	**4,089**	**48,701**	**-**	**(5,607)**	**(3,470)**	**43,713**

THE QUARTO GROUP, INC.
Condensed Consolidated Cash Flow Statement
For the year ended 31 December 2020

	Year ended 31 December 2020	Year ended 31 December 2019
	$'000	$'000

Profit for the year	**4,569**	**2,882**
Adjustments for:		
Net finance costs	2,693	4,930
Depreciation of property, plant and equipment	2,160	2,127
Software amortisation	231	276
Tax expense	2,020	962
Profit on disposal of right-to-use assets	(35)	-
Share based (credits)/payments	(32)	48
Amortisation of acquired intangibles	890	811
Amortisation and amounts written off pre-publication costs	28,646	28,694
Operating cash flows before movements in working capital	**41,142**	**40,730**
Decrease in inventories	4,023	3,157
Decrease in receivables	2,721	8,961
(Decrease) in payables	(9,205)	(8,896)
Cash generated by operations	**38,681**	**43,952**
Income taxes paid	(1,760)	(2,650)
Net cash from operating activities	**36,921**	**41,302**
Investing activities		
Interest received	-	9
Investment in pre-publication costs	(20,324)	(23,786)
Purchases of property, plant and equipment	(34)	(138)
Acquisition of businesses	-	(1,250)
Net cash used in investing activities	**(20,358)**	**(25,165)**
Financing activities		
Interest payments	(1,297)	(3,709)
New share capital raised	18,351	-
Costs of raising new share capital	(1,370)	-
Lease payments	(1,995)	(1,882)
Drawdown of revolving credit facility and other loans	4,520	1,963
Repayment of revolving credit facility and other loans	(28,413)	(12,417)
Net cash used in financing activities	**(10,204)**	**(16,045)**
Net increase in cash and cash equivalents	**6,359**	**92**
Cash and cash equivalents at beginning of year	**15,621**	**15,384**
Foreign currency exchange differences on cash and cash equivalents	99	145
Cash and cash equivalents at end of year	**22,079**	**15,621**

THE QUARTO GROUP, INC.
Notes to the condensed financial statements

1. Basis of preparation

The results have been extracted from the audited financial statements of the Group for the year ended 31 December 2020. The results do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the IFRIC interpretations and Companies Act 2006 that applies to companies reporting under IFRS, this announcement does not of itself contain sufficient information to comply with IFRS. The Group will publish full financial statements that comply with IFRS. The audited financial statements incorporate an unmodified audit report.

Statutory accounts for the year ended 31 December 2019, have been filed with the Registrar of Companies. The Auditor's report on these accounts did contain an emphasis of matter in relation to the fact that a material uncertainty existed that may have cast doubt on the Group's ability to continue as a going concern. The accounting policies applied are consistent with those described in the Annual Report & Accounts for the year ended 31 December 2019.

The Group financial statements are presented in US Dollars and all values are shown in thousands of dollars ($000) rounded to the nearest thousand dollars, except where otherwise stated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Going Concern

The Board assessed the Group's ability to operate as a going concern for the next 12 months from the date of signing the financial statements.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared in detail to 31 March 2022. This is to satisfy themselves of the going concern assumption used in preparing the financial statements. The base case model was built using a detailed sales forecast driven by the publishing program for 2021. Core margins have remained unchanged with trade receivable days remaining consistent with 2020.

As part of this work, the model was sensitised initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a severe but plausible scenario. The model was then flexed to a tolerance of 13%, at which point the banking covenants were breached at the end of December 2021. It is considered remote that such a reduction of revenue would occur, given, the detailed nature of the sales forecast and, even with the challenges of 2020, revenue dropped by only 7% year on year. Should we start to see a reduction in revenue, then mitigating actions will be taken, such as reduction in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

Based on the above indications, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements.

2. Operating segments

The analysis by segment is presented below. This is the basis on which the operating results are reviewed and resources allocated by the Chief Executive Officer, who is deemed to be the chief operating decision maker.

2020	**US Publishing $000**	**UK Publishing $000**	**Total $000**
External revenue - continuing operations	**63,137**	**63,746**	**126,883**
Operating profit before amortisation of acquired intangibles and exceptional items	**3,249**	**8,360**	**11,609**
Amortisation of acquired intangibles	(851)	(39)	(890)
Segment result	**2,398**	**8,321**	**10,719**
Unallocated corporate expenses			(991)
Corporate exceptional items (note 3)			(446)
Operating profit			**9,282**
Finance costs			(2,693)
Profit before tax			**6,589**
Tax			(2,020)
Profit after tax			**4,569**

2. Operating segments (continued)

2019	**US Publishing $000**	**UK Publishing $000**	**Total $000**
External revenue - continuing operations	**71,488**	**64,319**	**135,807**
Operating profit before amortisation of acquired intangibles and exceptional items	**4,511**	**6,540**	**11,051**
Amortisation of acquired intangibles	(570)	(241)	(811)
Segment result	**3,941**	**6,299**	**10,240**
Unallocated corporate expenses			(1,047)
Corporate exceptional items (note 3)			(419)
Operating profit			**8,774**
Finance income			9
Finance costs			(4,939)
Profit before tax			**3,844**
Tax			(962)
Profit after tax			**2,882**

Segmental balance sheet

	2020 $000	2019 $000
Quarto Publishing Group USA	**69,330**	81,154
Quarto Publishing Group UK	**57,925**	64,675
Unallocated (Deferred tax and cash)	**25,683**	18,952
	152,938	
Total Assets		164,781
Quarto Publishing Group USA	**26,930**	29,613

Quarto Publishing Group UK	**29,413**	37,634
Unallocated (Deferred tax, corporation tax and debt)	**52,883**	76,480
Total Liabilities	**109,225**	143,727

Geographical revenue

The Group operates in the following geographical areas:

	2020 **$'000**	2019 $'000
United States of America	**76,061**	80,131
United Kingdom	**18,250**	19,193
Europe	**17,446**	21,392
Rest of the World	**15,126**	15,091
Total	**126,883**	135,807

3. Exceptional items

	2020 **$000**	2019 $000
Staff severance costs	**251**	-
Refinancing costs	**195**	387
Aborted corporate transaction costs	**-**	32
Total	**446**	419

4. Finance costs

	2020 **$000**	2019 $000
Interest expense on borrowings	**1,724**	3,360
Amortisation of debt issuance costs and bank fees	**543**	936
Interest expense on lease liabilities arising from adoption of IFRS 16	**390**	454
Other interest	**36**	189
Total	**2,693**	4,939

5. Taxation

	2020 **$000**	2019 $000
Corporation tax		
Current year	**3,156**	1,557
Prior periods	**2**	(123)
Total current tax	**3,158**	1,434
Deferred tax		
Origination and reversal of temporary differences	**(1,138)**	(472)
Total tax expense	**2,020**	962

Corporation tax on UK profits is calculated at 19% (2019: 19%), based on the UK standard rate of corporation tax of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the total tax expense for the year.

	2020 **$000**	2019 $000
Profit before tax	**6,589**	3,844
Tax at the UK corporation tax rate of 19% (2019: 19%)	**1,252**	730
Effect of different tax rates of subsidiaries operating in other jurisdictions	**161**	(79)
Change in overseas tax rates during the year	**68**	-

Adjustment to prior years	**2**	97
Tax effect of items that are not deductible in determining taxable profit	**240**	174
Other	**297**	40
Tax expense	**2,020**	962
Effective tax rate for the year	**30.7%**	25.0%

6. Earnings per share

	2020 $'000	2019 $'000
From continuing operations		
Profit for the year	**4,569**	2,882
Amortisation of acquired intangibles (net of tax)	**626**	654
Exceptional items (net of tax)	**349**	339
Earnings for the purposes of adjusted earnings per share	**5,544**	3,875

Number of shares	**Number**	Number
Weighted average number of ordinary shares	**39,185,388**	20,444,550
Effect of potentially dilutive share options	**123,037**	171,597
Diluted weighted average number of ordinary shares	**39,308,425**	20,616,147
Earnings per share (cents) - continuing operations		
Basic	**11.7**	14.1
Diluted	**11.6**	14.0
Adjusted earnings per share (cents)		
Basic	**14.1**	19.0
Diluted	**14.1**	18.8

7. Goodwill

	2020 $000	2019 $000
Cost		
At 1 January	**42,913**	42,675
Exchange differences	**189**	238
At 31 December	**43,102**	42,913
Accumulated impairment losses		
At 1 January	**(23,721)**	(23,721)
Impairment	**-**	-
Exchange differences	**-**	-
At 31 December	**(23,721)**	(23,721)
Carrying value:		
At 31 December	**19,381**	19,192

The cash generating units containing goodwill are as follows:

	2020 $000	2019 $000
Quarto Publishing Group USA (QUS)	**12,882**	12,882
Quarto Publishing Group UK (QUK)	**6,499**	6,310
	19,381	19,192

The recoverable amount of each cash generating unit ('CGU') is determined using the value in use basis. In determining value in use, management prepares a detailed bottom up budget for the initial twelve-month period, with reviews conducted at each business unit. A further two years are forecast using relevant growth rates and other assumptions. Cash flows beyond the three-year period are extrapolated into perpetuity, by applying a 2% growth rate from the addressable market. The cashflows are then discounted using a country-specific discount rate. The growth rates used are consistent with the growth expectations for the sector in which the company operates and the discount rate has been calculated using pre-tax Weighted Average Cost of Capital analysis.

7. Goodwill (continued)

The key assumptions for calculating value in use are as follows:

	Terminal Growth Rates		Discount Rates	
	2020	2019	2020	2019
United States of America	2%	2%	11.40%	10.81%
United Kingdom	2%	2%	11.12%	10.54%

Revenue growth rates: forecast sales growth rates are based on those applied to the Board approved budget for the year ending 31 December 2021 and three-year plan. They incorporate future expectations of growth driven by investment plans for each CGU.

Long-term growth rates: the three-year forecasts are extrapolated to perpetuity on the basis that the CGU's are long-established business units. The long-term growth rates are blended rates formed from the territory-specific long-term growth rates.

Gross margins: gross margins are based on historic performance and expected changes to the sales mix in future periods.

The Group has not identified any reasonable possible changes to key assumptions that would cause the carrying value of goodwill of the QUK CGU to exceed its recoverable amount. QUS has by far the largest goodwill and non-current assets and carries a greater risk of impairment. Based on the above long-term growth rate and discount rate, QUS exceeded the carrying value of goodwill by $17.8m. The following sensitivities were applied to this CGU:

- 2% increase in discount rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $7.1m. The discount rate would need to increase to 15.3% to record any impairment.
- Nil terminal growth rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $8.9m. The terminal growth rate would need to show an annual 2% decline before any impairment was recorded.
- 5% decline in first year revenues, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $13.1m.
- 5% decline in first year revenues and an increased discount rate of 13.1% would cause impairment if there were no mitigation actions.

Should there be a headline change in revenues and margins, this could create an impairment.

8. Intangible assets: Pre-publication costs

	2020 $000	2020 $000	2020 $000	2019 $000	2019 $000	2019 $000
	Work in progress	Published products	Total	Work in progress	Published products	Total
Cost						
At 1 January	12,929	118,271	131,200	13,544	124,096	137,640
Exchange difference	147	2,056	2,203	213	1,827	2,040
Additions	20,324	-	20,324	23,786	-	23,786
Transfers	(18,508)	18,508	-	(21,279)	21,279	-
Impairment charge	(3,450)	-	(3,450)	(3,335)	-	(3,335)
Disposals	-	(52,339)	(52,339)	-	(28,931)	(28,931)
At 31 December	11,442	86,496	97,938	12,929	118,271	131,200
Amortisation						

At 1 January	-	82,503	82,503	-	84,934	84,934
Exchange difference	-	1,665	1,665	-	1,141	1,141
Amortisation charge	-	23,304	23,304	-	25,359	25,359
Impairment charge	-	1,892	1,892	-	-	-
Disposals	-	(52,339)	(52,339)	-	(28,931)	(28,931)
At 31 December	-	57,025	57,025	-	82,503	82,503
Net book value	11,442	29,471	40,913	12,929	35,768	48,697

The assessment of the useful life of pre-publication costs and amortisation involves a significant management estimate based on historical trends and future potential sales, in accordance with the accounting policy. In the current year, certain imprints operating under the US Publishing segment reported material falls in revenues and gross margins, which led to a downward revision of the useful lives of these imprints. The additional charge of $1,892,000 (2019: $nil) is disclosed above.

Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill.

9. Alternative performance measures

The Group uses alternative performance measures to explain and judge its performance.

Adjusted operating profit excluding amortisation of acquired intangibles and exceptional items. The Directors consider this to be a useful measure of the Group operating performance as it shows the performance of the underlying business.

Exceptional items are those which the Company defines as significant non-recurring items outside the scope of normal business that need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information.

Free cashflow is the cash generated by operations less pre-publication investment and purchases of property, plant and equipment and software.

Backlist % refers to book titles that were published in previous calendar years and is a key measure of the performance of our intellectual property assets.

Intellectual property development spend refers to the amounts spent annually on the creation and publication of book titles against which we monitor subsequent sales (see note 8).

	2020 $000	2019 $000
Adjusted Operating Profit		
Operating profit (continuing operations)	**9,282**	8,774
Add back:		
Amortisation of acquired intangibles	**890**	811
Exceptional items (note 3)	**446**	419
Adjusted operating profit	**10,618**	10,004
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	**10,618**	10,004
Less: net finance costs	**(2,693)**	(4,930)
Less: impact of IFRS 16	**(270)**	(271)
Adjusted profit before tax (before amortisation of acquired intangible and exceptional items)	**7,655**	4,803
Net finance costs	**2,693**	4,930
Depreciation (excluding right-of-use assets)	**631**	794
Share based (credits)/payments	**(32)**	48
One off non-cash costs	**1,892**	-
EBITDA on consistent measure	**12,839**	10,575
Impact of IFRS 16	**270**	271
Depreciation of right-of-use assets	**1,760**	1,609
Less: one off non-cash costs	**(1,892)**	-
EBITDA	**12,977**	12,455
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	**10,618**	10,004
Less: net finance costs	**(2,693)**	(4,930)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	**7,925**	5,074

Free cashflow

Net cash from operating activities	**36,921**	41,302
Investment in pre-publication costs	**(20,324)**	(23,786)
Purchases of property, plant and equipment	**(34)**	(138)
Free cashflow	**16,563**	17,378

9. Alternative performance measures (continued)

	2020	2019
	$000	$000
Net Debt		
Short term borrowings	**41,819**	66,077
Cash and cash equivalents	**(22,079)**	(15,621)
Net debt	**19,740**	50,456

10. Post balance sheet events

On 16 February 2021, the Group concluded Its refinancing, signing an extension to its existing bank facilities to 16 July 2024. The multi-currency facility comprises a $10m term loan, a $8m revolving credit facility and a $2m overdraft facility. On the same date, Lion Rock Group Limited, a related party agreed to provide the Group a $10m loan note at 4% interest, repayable on 31 July 2024.

11. Principal risks and uncertainties facing the Group

a. Economic conditions risk. The Group operates across many of the major world economies and its revenues and profits depend on the general state of the economy in those territories. A downturn caused by a global recession, potentially as a result of the Covid-19 pandemic, could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. In addition, the UK's exit from the European Union and US-Sino relations (resulting in the introduction of tariffs in 2019) contributes to uncertainty in the eco-nomic environment. The Group has adequate liquidity with up to $20m in available debt facilities. In addition, in such an event, the Directors have the ability to take a number of mitigating actions, including the reduction of spend on pre-publication costs, inventory printings and other discretionary Items. The Group offers non-Chinese printing for customers in order to avoid US tariffs on books. The Company's management information systems allow it to assess sales performance quickly and so take the appropriate steps to maximise operating performance. The Group has shown itself to be adaptable by quickly accommodating the changes necessary to its sales and marketing activities during the Covid-19 pandemic.

b. Currency risk. The Group's businesses operate in a number of currencies giving rise to a risk of exchange loss from fluctuating exchange rates. The Group has a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. Borrowings have been taken out in different currencies to mitigate risk of currency movements impacting our net assets.

c. Loss of intellectual property risk. A loss of stored IP through failure of storage medium or loss of back-ups would impact our ability to process reprints and revisions and could cause a loss of revenue. A cloud storage solution is integrated into our production workflow to provide storage, back-up and recovery services for product files in development. Complete backlist archives are stored in a mirrored storage array.

d. Financial risk. The Group's relatively high level of debt makes the Group sensitive to interest rates and potential covenant breaches. In 2020 the Quarto progressed in its goal to reduce its debt when it completed an open offer to shareholders in January; the net proceeds of $17m were used to pay down bank debt. Since the year end, a new three year and five months banking facility of $20m has been secured, together with additional shareholder support. This has enabled the Company to repay the facility that existed at the year end. Quarto continues to benefit from a strong cost-reduction program introduced in the second half of 2018 and a competitive auction platform introduced during 2019 to procure printing services which is providing additional cost savings. In 2021 the Company will reduce its office footprint to accommodate new working styles which will further reduce operating costs.

e. Customer. A significant dependency on a small number of customers, for instance co-edition partners or retailers, could be problematic if one of them tried to secure preferential terms or stopped doing business with the Group. The failure of a major customer, or a distributor, could impact revenue and profits. The impact of Covid-19 has moved sales online which has increased the Group's exposure to Amazon and has reduced sales to traditional retailers and bookstores. Until lockdowns are over and customer buying patterns are better understood, we can expect market disruption to continue and with that there is the risk that sales to traditional customers will fall. The Group has a long-established strategy of diversifying its international customer base, including specialty retailers, resulting in the fact that with one exception no customer, or distributor, has over 20% of the business. Customer relations are managed to ensure a fair-trading relationship. Management monitors debts closely and maintains close relationships with its customers, and distributors, which may provide prior warning of likely failure. The Group continues to adapt to supporting online selling and continues to offer and promote e-book versions of its books.

f. Supply chain and raw materials risk. The Group relies on a group of print suppliers, many of which are based in southern China. There is a risk that an interruption in the availability of printing services in that area or the financial failure of one printer could disrupt the supply of new books to customers. Any increase in costs such as oil, port charges etc. would also impact shipping costs. Any disruption in supply of paper could lead to an increase in costs and production disruption. There is also a reputational risk of using non-environmentally friendly paper. Inefficiencies in product movement introduced by 'Brexit', the departure of the UK from the EU from 2021, could disrupt timely product movement into the UK. The Covid-19 pandemic has disrupted freight shipping causing severe delays and tripling shipping costs. The Group maintains relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble. The Group has worked with its major printers on a plan to adopt sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable

Forestry Initiative (SFI) paper policy across all our imprints. Quarto monitors the Brexit-situation closely, taking note of the advice of the UK Government and key suppliers to ensure minimal disruption. Most of Quarto's product is shipped directly to EU countries from its printers based principally in China. These shipments are not expected to be affected by Brexit.
The Company recognises the disruptions from freight shipping and will take a flexible holistic approach to its supply chain activities and will work closely with logistics suppliers and its network of onshore and offshore printers.

g. Cyber security risk. Like many organizations, the Group is at risk from cyber-attack. This presents a potentially serious risk of disruption to the production process and could have a significant impact on the profitability of the business and the security of its IP assets. The Group uses enterprise level firewalls and IT controls to prevent attack as well as maintaining cloud-based copies and offsite back-up of IP. Computerised files of the Group's books are also maintained by printers. We do not store any personal or credit card data on our transactional website www.quartoknows.com. The Group undertakes industry standard system penetration testing.

h. Coronavirus risk. The global spread of the coronavirus (Covid-19) is causing significant business interruption by infecting the Group's workforce; closing retail outlets and impacting orders and revenues; causing lockdowns altering customer buying patterns; and impairing the Group's supply chain adding cost and delaying fulfilment of orders. Quarto monitors and follows government advice making the necessary adjustments in order to maintain the well-being of its employees. Quarto promotes hygienic practices in its offices and avoids unnecessary travel. The Group operates modern IT systems that permit remote working with the minimum of interruption. The Group also has the ability to immediately reduce its investment in pre-publication costs and inventory and manage discretionary spending. Working with its suppliers and customers, Quarto works hard to reduce the impact of any interruption in its supply chain. During 2020 Quarto was able to adapt to the increasing value of book sales going online. It will continue to perfect its approach to supporting sales as necessary.

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