



RNS

Half-year/Interim Report

Half-year Report

QUARTO GROUP INCORPORATED

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

Half-Year Results for the Six Months Ended 30 June 2021

The Quarto Group Inc. (LSE: QRT), the leading global illustrated book publisher, announces its unaudited half-year results for the six months ended 30 June 2021.

Results (\$m)	H1 2021	H1 2020
Group Revenue	56.9	46.9
Adjusted ¹ Group Operating Profit/Loss	4.0	(1.8)
Group Operating Profit/Loss	4.0	(2.5)
Adjusted ¹ Profit/Loss before Tax	3.1	(3.3)
Profit/Loss before Tax	3.0	(4.0)
Profit/Loss after Tax	2.1	(3.0)
Net Debt ²	16.4	37.4

- Adjusted measures are stated before amortization of acquired intangibles and exceptional items.
- The June 2020 figure has been restated to include Accrued Interest of \$759k.

Headlines

- Revenue up 21% at \$56.9m against 2020.
- Operating profit of \$4m up from a loss of \$1.8m, benefiting from the cost reduction program in 2018 and continued through 2020.
- Net debt reduced in last 12 months by \$21m (56%) to \$16.4m driven by the cost reduction program, improved trading, dynamic inventory management and reduced finance costs.

Commenting on the results, Chief Executive, C.K. Lau said:

"This is an encouraging set of results following a year of challenge due to the Covid 19 pandemic. Revenue is 21% up year on year against a weak comparative in 2020. This has delivered an operating profit of \$4m and net debt has reduced significantly during the period in what is seasonally our weak half of the year.

We are now focused on the critical second half as we expect the trading environment to be particularly challenging, especially with the volatility in freight, regarding capacity issues and freight costs. That said, we have the right plans in place to capture all possible opportunities and ensure a satisfactory year-end.

The Board remains focused on continuing its efforts to keep costs under control, drive sales, whilst maintaining the debt reduction and defining further growth strategies for 2022 and beyond."

- ENDS -

The Legal Identifier of the Company is 549300BJ2WPX3QUATW58.

For further information, please contact:

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Daniel Logan, Group Finance Director
Michael Clarke, Company Secretary

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](https://twitter.com/TheQuartoGroup).

CHIEF EXECUTIVE'S STATEMENT

SUMMARY

Trading was encouraging for the first six months of 2021. Revenue was up 21% year on year at \$56.9m against a weak comparative because of COVID 19 (H1 2020: \$46.9m). Revenue was up 1% against 2019 (\$56.4m).

Our Adult imprints performed strongly, with revenues up 24% year on year, and 3% ahead of 2019. Revenues from Children imprints was up 16% year on year, however against 2019, revenue was 4% down, with the US in particular seeing revenue decline. Gross profit margin was ahead of prior year at 31.8% (H1 2020: 22.7%) driven by a reduction in pre-publication amortization, by comparison, gross margin for H1 2019 was 21.5%.

The increased revenues and substantial benefits from the cost reduction program implemented in 2018 and which continued through 2020, has resulted in an adjusted group operating profit of \$4.0m (H1 2020: loss of \$1.8m). The adjusted profit before tax was \$3.0m (H1 2020: loss of \$3.3m).

Both our US and UK reporting segments improved their trading performance year on year, resulting in a significant improvement in the Group's adjusted operating result, as shown in the table below.

Net debt at 30 June 2021 was \$16.4m (H1 2020: \$37.4m*) a decrease of \$21m over the twelve-month period and a reduction of \$3.4m in the six month period. *See note 7.

This strong cash generation has been driven by the cost reduction program, improved trading, dynamic inventory management and reduced finance costs.

The book trade market in the first six months of 2021 proved to be resilient, recovering from the setback of 2020 and trading ahead of 2019, however the co-edition market is flat year on year, with the impact of COVID being felt.

OPERATING REVIEW

Revenue (\$m)	H1 2021	H1 2020	H1 2019
United States	36.3	29.2	36.7
United Kingdom	7.9	6.3	7.6
Rest of the World	6.6	5.1	5.0
Europe	6.1	6.3	7.1
Total Revenue	56.9	46.9	56.4

Adjusted Operating Profit / (Loss) (\$m)	H1 2021	H1 2020	H1 2019
US Publishing	3.8	(0.4)	1.3
UK Publishing	1.0	(0.6)	(1.5)
Group overhead	(0.8)	(0.8)	(0.7)
Total adjusted operating profit / (loss)	4.0	(1.8)	(0.9)

Note: Revenue is shown by destination; adjusted operating profit / (loss) is shown by segment.

Whilst the number of published titles is in line with prior year, as a result of the actions taken during the pandemic, the Group's revenue increased year on year, driven by backlist sales and the re-opening of bricks and mortar bookstores.

UK-based Frances Lincoln Children's Books imprint continues to drive forward, with the Little People, Big Dreams series continuing to be a highlight, with over 4.6 million copies sold in the English language to date. We have expanded the list to include inspirational role models, such as RuPaul, David Attenborough and Captain Tom. US-based SmartLab continues to perform, with sales of Squishy Human Body selling over 112k units.

Revenues from Adult imprints were up across all imprints. In the US, our Beverly-based Adult imprints, especially Fair Winds Press and Cool Spring Press, continue to perform strongly led by our Gardening and Cookery titles.

Co-edition sales are in line with prior year both in English and foreign language, however this is a drop on 2019, as our publishing partners eased back on H1 2021 acquisitions. We are starting to see these sales pick up; however, we are expecting this to be a challenging market.

We have seen new opportunities in custom publishing driving revenue growth, and we expect this to become a larger part of our business-to-business revenue in the coming years.

International English language sales are up year on year, driven by Australia and Canada.

We continue to see a reduction in our financing costs, as we drive down the Group's net debt.

OUTLOOK

As we move into H2 2021, and as the global economy continues to unlock, we expect to see online sales return to more normal volumes with sales from traditional books stores building, albeit from a lower base. Business to business sales are starting to show signs of green shoots, in particular through the custom channel.

One area of concern is the volatility in freight, with capacity issues and freight costs increasing 3 to 4-fold since the turn of the year. We are also seeing pressure on print prices. We continue to look to mitigate these costs by using local printer suppliers and reviewing our inventory policy to ensure we print in the most efficient quantities. We expect this pressure on print and freight to increase our costs significantly.

That said, the Group has the right plans in place to capture all possible opportunities and deliver a satisfactory second half. The Board remains focused on continuing its efforts to keep costs under control, drive sales, whilst maintaining the debt reduction and defining further growth strategies for 2022 and beyond.

On behalf of the Board, I would like to thank all our staff, readers, customers, suppliers and shareholders, across the world, for their continued commitment and support.

C.K. Lau
Chief Executive Officer

THE QUARTO GROUP, INC.

Condensed Consolidated Income Statement

For the six months ended 30 June 2021

		Six months to 30 June 2021 Unaudited	Six months to 30 June 2020 Unaudited	Year ended 31 December 2020 Audited
	Note	\$'000	\$'000	\$'000
Continuing operations				
Revenue	3	56,864	46,865	126,883
Cost of sales		(38,775)	(36,232)	(89,298)
Gross profit		18,089	10,633	37,585
Distribution costs		(3,562)	(2,937)	(7,132)
Impairment of financial assets		(689)	(696)	(1,571)
Administrative expenses		(9,858)	(8,753)	(18,264)

Operating profit/(loss) before amortisation of acquired intangibles and exceptional items		3,980	(1,753)	10,618
Amortisation of acquired intangibles		(7)	(323)	(890)
Exceptional items	4	-	(421)	(446)
Operating profit/(loss)	3	3,973	(2,497)	9,282
Finance costs		(929)	(1,506)	(2,693)
Profit/(loss) before tax		3,044	(4,003)	6,589
Taxation	5	(895)	1,000	(2,020)
Profit/(loss) for the period		2,149	(3,003)	4,569
Attributable to:				
Owners of the parent		2,149	(3,003)	4,569
Earnings/(loss) per share (cents)				
From continuing operations				
Basic	6	5.3	(8.1)	11.7
Diluted	6	5.3	(8.1)	11.6

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2021

	Six months to 30 June 2021 Unaudited	Six months to 30 June 2020 Unaudited	Year ended 31 December 2020 Audited
	\$'000	\$'000	\$'000
Profit/(loss) for the period	2,149	(3,003)	4,569
Other comprehensive income which may be reclassified to profit or (loss)			
Foreign exchange translation differences	255	(1,922)	1,087
Tax relating to items that may be reclassified to profit or loss	-	-	54
Total comprehensive income/(expense) for the period	2,404	(4,925)	5,710
Attributable to:			
Owners of the parent	2,404	(4,925)	5,710

THE QUARTO GROUP, INC.
Condensed Consolidated Balance Sheet

	30 June 2021 Unaudited	30 June 2020 Unaudited	31 December 2020 Audited
At 30 June 2021		*Restated	
Note			

		\$'000	\$'000	\$'000
Non-current assets				
Goodwill		19,429	18,765	19,381
Other intangible assets		101	834	159
Property, plant and equipment		6,112	9,503	6,818
Intangible assets: Pre-publication costs		39,958	44,335	40,913
Deferred tax assets		3,604	3,331	3,604
Total non-current assets		69,204	76,768	70,875
Current assets				
Inventories		17,366	16,813	15,465
Trade and other receivables		34,473	35,506	44,519
Cash and cash equivalents	7	19,044	11,547	22,079
Total current assets		70,883	63,866	82,063
Total assets		140,087	140,634	152,938
Current liabilities				
Short term borrowings	7	(3,905)	(5,000)	(41,819)
Trade and other payables		(41,992)	(40,723)	(50,064)
Lease liabilities		(1,426)	(1,839)	(1,968)
Tax payable		(4,117)	(1,718)	(4,355)
Total current liabilities		(51,440)	(49,280)	(98,206)
Non-current liabilities				
Medium and long-term borrowings	7	(31,498)	(43,940)	-
Deferred tax liabilities		(6,347)	(6,808)	(6,323)
Tax payable		(386)	(441)	(386)
Lease liabilities		(4,289)	(6,995)	(4,310)
Total non-current liabilities		(42,520)	(58,184)	(11,019)
Total liabilities		(93,960)	(107,464)	(109,225)
Net assets		46,127	33,170	43,713
Equity				
Share capital		4,089	4,089	4,089
Paid in surplus		48,701	48,701	48,701
Retained earnings and other reserves		(6,663)	(19,620)	(9,077)
Total equity		46,127	33,170	43,713

*See note 7

THE QUARTO GROUP, INC.**Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2021**

	Share capital	Paid in surplus	Translation reserve	Retained earnings	Equity attributable to owners of the parent
	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2020	2,045	33,764	(6,748)	(8,007)	21,054
Loss for the period	-	-	-	(3,003)	(3,003)
Foreign exchange translation differences	-	-	(1,922)	-	(1,922)
Total comprehensive (expense)/income for the period	-	-	(1,922)	(3,003)	(4,925)
Share based raised	2,044	16,307	-	-	18,351
Costs of raising share capital	-	(1,370)	-	-	(1,370)

Share based payment charge	-	-	-	60	60
Transactions with owners	2,044	14,937	-	60	17,041
Balance at 30 June 2020	4,089	48,701	(8,670)	(10,950)	33,170
Balance at 1 January 2021	4,089	48,701	(5,607)	(3,470)	43,713
Profit for the period	-	-	-	2,149	2,149
Foreign exchange translation differences	-	-	255	-	255
Total comprehensive income for the period	-	-	255	2,149	2,404
Share based payment charge	-	-	-	10	10
Balance at 30 June 2021	4,089	48,701	(5,352)	(1,311)	46,127

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

	Share capital \$000	Paid in surplus \$000	Translation reserve \$000	Retained earnings \$000	Equity attributable to owners of the parent \$000
Balance at 1 January 2020	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
Cash flow hedge: losses arising during the year	-	-	-	-	-
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 based raised	2,044	16,307	-	-	18,351
Costs of raising share capital	-	(1,370)	-	-	(1,370)
Share based payment credit	-	-	-	(32)	(32)
Transactions with owners	2,044	14,937	-	(32)	16,949
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 six months ended 30 June 2021**

	Six months to 30 June 2021 Unaudited	Six months to 30 June 2020 Unaudited *Restated	Year ended 31 December 2020 Audited
	\$'000	\$'000	\$'000
Profit/(loss) for the period	2,149	(3,003)	4,569
Adjustments for:			
Net finance costs	929	1,506	2,693

Depreciation of property, plant and equipment	766	1,062	2,160
Software amortization	51	123	231
Tax charge/(credit)	895	(1,000)	2,020
Profit on disposal of right-of-use assets	-	-	(35)
Share based payments	10	60	(32)
Amortisation and amounts written off acquired intangibles	7	323	890
Amortisation and amounts written off pre-publication costs	12,026	13,084	28,646
<hr/>			
Operating cash flows before movements in working capital	16,833	12,155	41,142
(Increase)/decrease in inventories	(1,867)	2,204	4,023
Decrease in receivables	10,239	9,672	2,721
(Decrease) in payables	(7,371)	(16,349)	(9,205)
<hr/>			
Cash generated by operations	17,834	7,682	38,681
Income taxes paid	(1,156)	(65)	(1,760)
<hr/>			
Net cash from operating activities	16,678	7,617	36,921
Investing activities			
Investment in pre-publication costs	(10,911)	(10,306)	(20,324)
Purchases of property, plant and equipment	(56)	(11)	(34)
<hr/>			
Net cash used in investing activities	(10,967)	(10,317)	(20,358)
Financing activities			
Interest payments	(1,923)	(819)	(1,297)
New Share Capital	-	18,351	18,351
Cost of raising share capital	-	(1,370)	(1,370)
Lease payments	(712)	(954)	(1,995)
External loans repaid	(31,567)	(21,626)	(28,413)
External loans drawn	25,118	5,259	4,520
<hr/>			
Net cash used in financing activities	(9,084)	(1,159)	(10,204)
Net (decrease)/increase in cash and cash equivalents	(3,373)	(3,859)	6,359
Cash and cash equivalents at beginning of period	22,079	15,621	15,621
Foreign currency exchange differences on cash and cash equivalents	338	(215)	99
<hr/>			
Cash and cash equivalents at end of period	19,044	11,547	22,079

*See note 7

THE QUARTO GROUP, INC.

Notes to the condensed financial statements

1. Interim Statement

These interim consolidated financial statements are for the half year to 30 June 2021. They were approved by the board on 3 August 2021. These results are unaudited and have not been reviewed by the Group's auditor. The comparative figures for the six months to 30 June 2020 were unaudited and derived from the interim financial statements for that period.

The information for the year ended 31 December 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Basis of preparation

These interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting".

The Group's forecast and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate well within the level of its current banking facilities. The Directors have therefore adopted a going concern basis in preparing the Interim Information.

2. Accounting policies

The accounting policies, significant judgements and key sources of estimation adopted in the preparation of this Interim Report are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2020.

THE QUARTO GROUP, INC.

Notes to the condensed financial statement

3. Segmental analysis

Six months to 30 June 2021	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	32,085	24,779	56,864
Operating profit before amortisation of acquired intangibles and exceptional items	3,792	1,029	4,821
Amortisation of acquired intangibles	(7)	-	(7)
Segment result	3,785	1,029	4,814
Unallocated corporate expenses			(841)
Exceptional items			-
Operating profit			3,973
Finance costs			(929)
Profit before tax			3,044
Tax charge			(895)
Profit after tax			2,149
Six months to 30 June 2020	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	24,989	21,876	46,865
Operating loss before amortisation of acquired intangibles and exceptional items	(439)	(551)	(990)
Amortisation of acquired intangibles	(285)	(38)	(323)
Segment result	(724)	(589)	(1,313)
Unallocated corporate expenses			(763)
Exceptional items			(421)
Operating loss			(2,497)
Finance costs			(1,506)
Loss before tax			(4,003)
Tax credit			1,000
Loss after tax			(3,003)
Year ended 31 December 2020	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	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			(446)
Operating profit			9,282
Finance costs			(2,693)
Profit before tax			6,589
Tax			(2,020)
Profit after tax			4,569

THE QUARTO GROUP, INC.

Notes to the condensed financial statements**3. Segmental analysis (continued)****Geographical revenue**

The Group generates its revenue in the following geographical areas:

	Six months to 30 June 2021 Unaudited \$'000	Six months to 30 June 2020 Unaudited \$'000	Year ended 31 December 2020 Audited \$'000
United States	36,315	28,713	76,061
United Kingdom	7,851	6,349	18,250
Europe	6,611	6,233	17,446
Rest of the World	6,087	5,570	15,126
Total	56,864	46,865	126,883

4. Exceptional items

	Six months to 30 June 2021 Unaudited \$'000	Six months to 30 June 2020 Unaudited \$'000	Year ended 31 December 2020 Audited \$'000
Exceptional items comprised:			
Restructuring costs	-	228	251
Refinancing costs	-	193	195
Total	-	421	446

5. Taxation

Taxation for the six months to 30 June 2021 is based on the Group estimated underlying tax rate for the year.

THE QUARTO GROUP, INC.**Notes to the condensed financial statements****6. Earnings per share**

	Six months to 30 June 2021 Unaudited \$'000	Six months to 30 June 2020 Unaudited \$'000	Year ended 31 December 2020 Audited \$'000
From continuing operations			
Profit/(loss) for the purposes of basic and diluted earnings per share, being net profit/(loss) attributable to owners of the parent	2,149	(3,003)	4,569
Amortisation of acquired intangibles (net of tax)	5	242	626
Exceptional items (net of tax)	-	316	349
Earnings/(loss) for the purposes of adjusted earnings per share	2,154	(2,445)	5,544

	Number	Number	Number
Weighted average number of shares	40,889,000	37,069,606	39,185,388
Dilutive outstanding options awards	43,482	157,659	123,037
Diluted weighted average number of shares	40,932,482	37,227,265	39,308,425

Earnings/(loss) per share (cents)	Cents	Cents	Cents
From continuing operations			
Basic	5.3	(8.1)	11.7
Diluted	5.3	(8.1)	11.6
Adjusted basic	5.3	(6.6)	14.1
Adjusted diluted	5.3	(6.6)	14.1

7. Net debt

	30 June 2021 Unaudited	30 June 2020 Unaudited *Restated	31 December 20 Audited
	\$'000	\$'000	\$'000
Net debt comprised:			
Cash and cash equivalents	19,044	11,547	22,079
Short term borrowings	(3,905)	(5,000)	(41,819)
Medium and long-term borrowings	(31,498)	(43,940)	-
Net debt	<u>(16,359)</u>	<u>(37,393)</u>	<u>(19,740)</u>

* The June 2020 figure has been restated to include Accrued Interest of \$759k moved from other payables.

At 30 June 2021, the Group has a \$18m syndicated facility, comprising a term loan, revolving credit facility and overdraft. These facilities expire on 16 July 2024 and are subject to covenants, which were all met in the current period. In addition, the Group has \$23.0m of subordinated loans with related parties, repayable on 31 August 2024 and a loan of \$2.4m relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA.

8. Principal risks and uncertainties facing the Group

There have been no changes to the principal risks and uncertainties facing the Group since the year-end. These are disclosed on pages 19 to 21 of the 2020 Annual Report.

THE QUARTO GROUP, INC.**Notes to the condensed financial statements****9. Financial instruments**

There are no material differences between the fair value of financial instruments and their carrying value.

10. Management Statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements, which has been prepared in accordance with IAS 34 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- the interim management report includes a fair review of the information required by DTR 4.27R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related party transactions and changes therein).

By the order of the board

Chuk Kin Lau
Chief Executive Officer

3 August 2021

Andrew Cumming
Chairman

3 August 2021

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