23 April 2020

The Quarto Group Inc.
(“Quarto”, the “Company”, or the “Group”)

Final Results for the Year Ended 31 December 2019

The Quarto Group Inc. (LSE: QRT), the leading global illustrated book publisher, announces its audited results for the year ended 31 December 2019.

Results ($m)	**2019**	**2018**
Revenue	135.8	149.3
Adjusted Operating Profit*	10.0	10.3
Exceptional Items	(0.4)	(5.2)
Operating Profit	8.8	4.3
Adjusted Profit Before Tax*	5.1	5.9
Profit/(Loss) Before Tax	3.8	(0.1)
Profit/(Loss) for the Year	2.9	(0.6)
Adjusted Diluted Earnings per Share from continuing operations	18.8 c	23.0 c
Basic Earnings/(Loss) per Share from continuing operations	14.1 c	(2.7) c
Net Debt	50.5	60.4

* Adjusted items exclude the amortization of acquired intangibles and exceptional items.

Operating Highlights

- Revenue of $135.8m down 9% on prior year of $149.3m
- Operating profit of $8.8m compared to $4.3m for prior year
- Children’s publishing revenues now represent over 36% of Group revenues, up from one-third.
- 65% of revenue generated from backlist titles (2018: 63%).
- Banking facilities extended in January 2020 to 31 July 2021.
- Open Offer successfully completed in January 2020 raising $16.5m net of expenses and reducing net bank debt to $33m **.

** Net debt excludes lease liabilities relating to right-of-use assets (IFRS16)

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

“*Operating profit was ahead of the prior year and this represents a pleasing result at a time of continued challenge in the marketplace.*

The successful Open Offer and the subsequent further reduction in bank debt, coupled with the extension of our banking facilities, provides a stronger financial base for the future.

The long-term impact on the global economy of the Covid-19 outbreak is expected to be significant. Whilst it not possible to estimate the financial impact of the outbreak, we have taken proactive measures to mitigate our operational risk and manage our business and cash flow. With a more sustainable balance sheet, we are now a more robust business that can respond quickly to the challenges ahead."

For further information, please contact:

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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.330 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

In 2019, our revenue declined by 9% to $135.8m (2018: $149.3m), operating profit increased by 104% to $8.8m (2018: $4.3m) as a result of reduced exceptional costs, and the Group has returned to profitability with a profit after tax of $2.9m (2018: $0.6m loss).

In the past two years, the board and senior management have been focused on cash generation in order to return the Group to a stronger financial position. Our comprehensive cost-out program is now bearing fruit as it has saved a significant amount of operating expense. We have right-sized our publishing program in order to reduce investment and to focus on creating strong purposeful book titles. We have continued to suspend payment of dividends to reduce our cash outlays. All these initiatives have helped the Group return to our first profit since 2016.

The Group ended the year with net debt at $50.5m, down 16.4% vs prior year (2018: $60.4m). We are encouraged that our financial stability is now further secured with the completion of a one-for-one open offer after the year end in January 2020. The net proceeds of the open offer were used to pay down debt, and immediately following the open offer, we were able to reduce our net bank debt to a more sustainable level of $33m.

The guidance of our Senior Leadership Team is critical to our continued efforts in our turnaround plan. Polly Powell, owner of Pavilion Books, has been an advisor to me since October 2019 and from 10 February 2020 she has been appointed as CEO of Quarto's UK operations. Polly, along with Ken Fund, our CEO of Quarto's US operations, will spearhead the development of the quality publishing program at Quarto.

The Little People, Big Dreams children's series started with life stories of female role models such as Coco Chanel, Frida Kahlo and Marie Curie, and in 2019, we added male role models such as David Bowie, Stephen Hawking and Muhammad Ali. The series continues to produce bestselling titles, and we are very excited to have secured the worldwide rights for this series (excluding Spain) which celebrates the diversity of society. Sixteen titles in this series were published during 2019 and we are introducing twenty more titles in 2020 with David Attenborough and Martin Luther King, Jr. already amongst our bestsellers.

Our new titles in the food and drink, and art and craft categories continued to perform strongly. Beautiful Boards, a book about preparing easy-to-find foods and arranging them in beautiful, artful, and whimsical ways, has sold 40,000 copies within the first 3 months of its publishing. Cross Stitch The Golden Girls, a fun stitching kit introduced in June 2019 that comes with hilarious patterns and quotes from The Golden Girls, has already warmed the hearts of 40,000 fans of this critically acclaimed TV series.

Squishy Human Body, Smart Circuits: Electronics Lab and Ultimate Secret Formula Lab from our SmartLab Toys have been bestselling products for years. Our traditional strength in backlist items like these continue to support us during our business turnaround and contributed 65% to our revenue in 2019.

Quarto takes the issue of sustainability very seriously. I am happy to report that the vast majority of the paper we use is FSC certified, which means that it is sourced from self-sustaining forestry. We will continue to actively pursue the latest planet-friendly initiatives in the book industry.

Key Strategies

Be Relevant
As a major publisher of English non-fiction books, we will continue to leverage our powerful transatlantic market position to quickly identify consumer trends and capitalize from that in both the US, UK and the rest of the world. To deliver that content strategy, we are structuring our imprints into 'best in class' hubs, concentrating on the subjects we do best, reducing internal overlapping in our publishing programs, and creating 'more from less'.

Nimble and Responsive
We are removing layers and streamlining the decision-making processes within Quarto. Our strategic objective is to create a nimble publishing organization that is quick to react to what consumers want in the fast-moving marketplace. A good example is Greta and the Giants, a book inspired by Greta Thunberg who is on a mission to raise awareness about the climate crisis. Six months from first concept in June 2019, this title became an international bestseller for us selling 30,000 copies in the UK, 18,000 copies in the US, and licensed in over 25 languages around the world.

State-of-the-Art Infrastructure
It is important to equip our staff with modern IT tools to keep pace with the ever-changing developments in the publishing industry and consumer trends. Traditionally, the book publishing business has been seen as more of an art rather than science, with a lot of publishing decisions made based on "gut feeling". But with the emergence of new technologies such as AI and machine learning, we are moving towards the hybrid model of art + science for decision making. We are working with outside consultants to modernize our tools, so that our publishers can identify popular and trending topics quickly; our operations teams can demand-plan more accurately; and Quarto's management can make quicker informed decisions.

Growing our Global Reach
We will continue to leverage Quarto's traditional strength in global trade publishing and co-edition publishing. Our foreign rights sales capability is second to none among publishing houses of our size and we will further develop our sales coverage in custom publishing and international English language trade book channels. On 3 February 2020, the Giunti family of Italy became a 20% shareholder of Quarto. The partnership with the Giunti family, owner of Giunti Editore and Giunti al Punto bookstore chain, will enable us to increase our global penetration of the English language non-fiction trade book markets in both conventional and emerging countries.

Covid-19

In its initial phase, the Covid-19 outbreak caused delays of two to four weeks on shipments from our Chinese print suppliers. This caused a small increase in production costs as we relocated some of our print productions to other countries such as Singapore and Malaysia. However, in the last two months, the lockdown measures imposed across the globe have led to falling orders and revenues, across our businesses. It is not possible to forecast how long this pandemic will continue to adversely impact the Group but we have already taken measures to mitigate our operational risk, reduce our cost base and, most Importantly in the short-term, manage our cashflow. We are engaged in discussions with our lenders on relaxing the financial covenants for the current financial year.

Outlook

Since the introduction of US tariffs on Chinese imports, we have been working hard to mitigate the impact on our customers. With the support of our print suppliers, we are able to minimise the brunt of the 7.5% tariff, and latterly we have been able to offer competitive printing outside of China.

Our pricing will continue to be under pressure as retailers both online and in physical brick and mortar locations put pressure on margin. We are looking for ways to counter this industry-wide trend of increasing discount and we have had some initial success in pricing our books at the proper price points for the marketplace, thus in some cases seeing higher retail pricing that matches our quality offering.

With a more sustainable balance sheet, we are a more resilient business that can quickly respond to the evolution of the book retailing environment, the consumer trends and the challenge of the Covid-19 outbreak.

The success of Quarto is all about our people. I would like to thank every employee for their strong performance and dedication in 2019.

OPERATING REVIEW

Quarto sells its products globally, in 50 countries in 40 languages, through a variety of sales channels with five principle routes to market – US, UK, International English language, Foreign language and several Partnerships.

Revenue is reported by the geography in which the product is sold. Adjusted Operating Profit is reported by IP portfolio where the product is generated.

Revenue ($m)	**2019**	**2018**
United States of America	80.1	86.1
United Kingdom	19.2	20.4
Europe	21.4	25.3
Rest of the World	15.1	17.5
Total Revenue	**135.8**	**149.3**

Adjusted operating profit ($m)	**2019**	**2018**
US Publishing	4.5	5.0
UK Publishing	6.5	7.7
Group Overhead	(1.0)	(2.4)
Total adjusted operating profit	**10.0**	**10.3**

The following were our top ten sellers, with their respective revenue and year of publication:

Title	**Imprint**	**Revenue $000**
Squishy Human Body (2006)	SmartLab Toys	$1,718
Art and Making of Pokemon Detective Pikachu (2019)	Walter Foster Jr	$1,023
Smart Circuits: Electronics Lab (2016)	SmartLab Toys	$953
Harry Potter Crochet (2019)	becker&meyer!	$603
The Bucket List (2016)	The Bright Press	$601
All-Natural Lip Balm Boutique (2016)	SmartLab Toys	$505
Story Orchestra: The Nutcracker (2017)	Frances Lincoln Children’s Books	$478
Story Orchestra: Swan Lake (2019)	Frances Lincoln Children’s Books	$415
ABC For Me: ABC What Can She Be? (2018)	Walter Foster Jr	$401
How To Draw Cute Stuff (2017)	Quarto Publishing	$400

US Publishing
US Publishing adjusted operating profit was down 10% to $4.5m (2018: $5.0m) due to a combination of factors:

- A reduction in the number of new titles published following the cost-out program put in place in 2018, with total revenue falling by 8% from $78.1m to $71.5m. Backlist revenues also dropped slightly reflecting a cautious domestic market.
- Custom publishing continues to grow with revenues up 19% and with slightly Improved margins.
- Print margins were stable but amortization of pre-publication costs were relatively flat, creating a decline in overall gross margins.
- Overhead savings amounted to $3.3m (15%) but not enough to reverse the decline in gross profit.

UK Publishing
UK Publishing adjusted operating profit was down 15% to $6.5m (2018: $7.7m) due to the following factors:

- A challenging co-edition market in both English language and foreign language markets. Revenues from co-edition declined by $7.8m (17%).
- Gross margins remained stable with a modest improvement in print margins offset by the impact of relatively flat pre-publication costs.
- Overhead savings of 5% were achieved.

Group Overhead
Group overhead, or corporate costs, were reduced by $1.4m due to the cost-out program initiated in the second half of 2018.

FINANCIAL REVIEW

Group Results
Revenue was $135.8m, a decrease of 9%, compared to 2018 ($149.3m). However operating profit was up 104% at $8.8m (2018: $4.3m) and represented 6.5% (2018: 2.9%) of revenue. Diluted earnings per share increased to 14.0c (2018: loss per share 2.7c). Only one of our titles exceeded 1% of Group revenue, being the top revenue earner for the second year in a row.

US Publishing
Revenue for this segment was down 8% at $71.5m (2018: $78.1m). Operating profit before amortisation of acquired intangibles and exceptional items ("adjusted operating profit") was down 10% at $4.5m (2018: $5.0m). We achieved an adjusted operating profit margin of 6.3% (2018: 6.4%). Reprints accounted for 68% of revenue, compared to 65% in 2018.

UK Publishing
Revenue for this segment was down 10% at $64.3m (2018: $71.2m). Adjusted operating profit was down 15% at $6.5m (2018: $7.7m). We achieved an adjusted operating profit margin of 10.2% (2018: 10.8%). Reprints accounted for 63% of revenue, compared to 61% in 2018.

Corporate costs
Corporate costs were reduced by 57% from $2.4m to $1.0m, due to the cost-out program which was initiated in the second half of last year.

Exceptional Items
Exceptional items, in 2019, comprised refinancing costs of $387,000, and $32,000 with respect to aborted corporate transaction costs. Exceptional items, in 2018, comprised reorganisation costs of $2.9m, arising from the cost-out program, $0.8m with respect to the board changes that occurred in May 2018 and $1.5m of refinancing costs.

Finance Costs
Finance costs were $4.9m (2018: $4.3m). The increase was attributable to higher interest rates arising from the refinancing in October 2018 and the Impact of adopting IRFS 16 'Leases' for the first time.

Tax
The tax charge for the year was $1.0m (2018: $0.5m).

Prior Year Adjustment
As a part of the year end audit there was a reinterpretation of the directly attributable costs and overheads that should be capitalized under IAS 38, as pre-publication costs; in the past, an element of overheads relating to indirect costs were capitalized which represents an error. The Directors accept responsibility for the error in their interpretation of IAS38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented on, by any of the Company's auditors in the intervening years. Past Company's auditors include Grant Thornton (2017 - 2019), Deloitte (2014 - 2016), Grant Thornton (2007 - 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018 however there was a reclassification of related expenses in the financial statements (see note 1).

Balance Sheet
The Group's net assets increased to $21.1m from $18.0m, driven by the trading performance during the year. The most significant change in the balance sheet related to current and non-current liabilities. Current liabilities increased from $74.1m to $128.2m and non-current liabilities decreased from $79.7m to $15.5m, largely because our borrowing facilities moved from medium term to short term, as we approached the end of the facility term. We have refinanced after the year-end. Additionally, the Initial Impact of adopting IFRS 16, whilst this has no significant effect on net assets, it increases property, plant and equipment by $9.7m and liabilities by $9.9m.

Cash Flow and Indebtedness
At the year end, our net debt was $50.5m, a reduction of 16%, compared to 2018, when it was $60.4m. The Group was well within its banking covenants. Free cash flow, during the year, was $17.4m, up 107% compared to 2018, when it was $8.4m. In 2019, a primary of objective of the Board was to reduce the bank debt to a more acceptable level and this was achieved with strong cash generation as outlined above.

Shareholder Return
The Directors have decided to continue the Group's policy of not paying a dividend for the foreseeable future, whilst the Group continues to focus on delivering a stable financial platform.

Going Concern
In accordance with Provision 31 of the 2018 revision of the UK Corporate Governance Code, the Directors initially, prior to the outbreak of Covid-19, assessed the prospects of the Group over both a one-year and a three-year period. The one-year period at that time had a greater level of certainty and therefore, used to set budgets for all our businesses which culminated in the approval of a Group budget for the Board. The three-year period is aligned with long-term incentives offered to Executive Directors and certain senior management.

The Directors 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 2022, which comprise a detailed cash forecast for the year ending 31 December 2020 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2021 and 2022, 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 2022. The Directors used the three-year review period because the Group's publishing program planning cycle normally works over a two- to three-year period.

In January 2020 the Group raised $16.5m net of expenses to pay down bank debts and the bank facilities were extended and now have 15 months to run before they will need to be refinanced in July 2021. Consistent with previous facilities, the Directors have assumed that these facilities will be renewed or extended at that time on similar terms. In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus will peak around the end of June and trading will normalise over the subsequent months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the investment in pre-publication costs, print volumes, staffing levels and other variable costs. The Directors have also considered the financial support commitment made by the UK Government and they believe the Group is eligible for some elements of this financial support. This has been factored in to the forecasts. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in August 2020, can be deferred to the end of the current facility.

In this scenario, whilst the Group would remain within its banking facilities, some of the financial covenants would, within the current financial year, be breached, unless a waiver agreement is reached with our lenders. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within the banking facilities. The Directors, as stated above, are in discussions with its lenders which, albeit at early stages, are considered as being productive. The financial covenants are tested every calendar quarter, and generally vary by each quarter.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. However, the downside scenario detailed above, including successfully taking mitigating actions, would indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

C.K. Lau
Group Chief Executive Officer

THE QUARTO GROUP, INC.
Condensed Consolidated Income Statement
For the year ended 31 December 2019

	Note	Year ended 31 December 2019 $'000	Year ended 31 December 2018 Restated (Note 1) $'000
Continuing operations			
Revenue	2	135,807	149,292
Cost of sales		(97,782)	(105,113)
Gross profit		38,025	44,179
Distribution costs		(7,527)	(7,919)
Impairment of financial assets		(853)	(245)
Administrative expenses		(19,641)	(25,710)
Operating profit before amortisation of acquired intangibles and exceptional items		**10,004**	**10,305**
Amortisation of acquired intangibles		(811)	(850)
Exceptional items	3	(419)	(5,152)
Operating profit	2	**8,774**	**4,303**
Finance income		9	21
Finance costs	4	(4,939)	(4,381)
Profit/(loss) before tax		**3,844**	**(57)**
Tax	5	(962)	(495)
Profit/(loss) for the year		**2,882**	**(552)**
Attributable to:			
Owners of the parent		**2,882**	**(552)**
Earnings/(loss) per share (cents)			
From continuing operations			
Basic	6	14.1	(2.7)
Diluted	6	14.0	(2.7)
Adjusted basic	6	19.0	23.2
Adjusted diluted	6	18.8	23.0

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	Year ended 31 December 2019	Year ended 31 December 2018 Restated (Note 1)
		$'000	$'000
Profit/(loss) for the year		2,882	(552)
Items that may be reclassified to profit or loss			
Foreign exchange translation differences		403	(1,950)
Cash flow hedge: (losses) arising during the year		(105)	(60)
Tax relating to items that may be reclassified to profit or loss		(162)	(246)
Total other comprehensive income/(expense)		136	(2,256)
Total comprehensive income/(expense) for the year net of tax		3,018	(2,808)
Attributable to:			
Owners of the parent		3,018	(2,808)

THE QUARTO GROUP, INC.
Condensed Consolidated Balance Sheet
At 31 December 2019

	Note	31 December 2019 $'000	31 December 2018 Restated (Note 1) $'000	31 December 2017 Restated (Note1) $'000
Non-current assets				
Goodwill	7	19,192	18,954	19,286
Other intangible assets		1,282	2,368	3,516
Property, plant and equipment		10,883	1,552	2,129
Intangible assets: Pre-publication costs	8	48,697	52,706	56,243
Deferred tax assets		3,331	3,901	3,901
Total non-current assets		83,385	79,481	85,075
Current assets				
Inventories		19,378	22,324	22,637
Trade and other receivables		46,397	54,476	53,460
Derivative financial instruments		-	105	205
Cash and cash equivalents		15,621	15,384	17,946
Total current assets		81,396	92,289	94,248
Total assets		164,781	171,770	179,323
Current liabilities				
Short term borrowings		(66,077)	(5,000)	(5,000)
Trade and other payables		(57,381)	(64,917)	(60,796)
Lease liabilities		(1,937)	-	-
Tax payable		(2,831)	(4,167)	(5,243)
Total current liabilities		(128,226)	(74,084)	(71,039)
Non-current liabilities				
Medium and long-term borrowings		-	(70,752)	(76,907)
Deferred tax liabilities		(7,139)	(7,848)	(7,615)
Tax payable		(433)	(544)	(1,116)
Lease liabilities		(7,929)	-	-
Other payables		-	(554)	(1,673)
Total non-current liabilities		(15,501)	(79,698)	(87,311)
Total liabilities		**(143,727)**	**(153,782)**	**(158,350)**
Net assets		**21,054**	**17,988**	**20,973**
Equity				
Share capital		2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained earnings and other reserves		(14,755)	(17,821)	(14,836)
Total equity		**21,054**	**17,988**	**20,973**

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	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 2018 as previously stated	**2,045**	**33,764**	**165**	**(4,793)**	**(7,078)**	**24,103**
Prior year adjustment (Note1)	-	-	-	-	(3,130)	**(3,130)**
Balance at 1 January 2018	2,045	33,764	165	(4,793)	(10,208)	**20,973**
Loss for the year	-	-	-	-	(552)	**(552)**
Foreign exchange translation differences	-	-	**-**	(1,950)	-	**(1,950)**
Cash flow hedge: gains arising during the year	-	-	(60)	-	-	**(60)**
Tax relating to items that may be reclassified to profit or loss	-	-	-	(246)	-	**(246)**
Total comprehensive income/(expense) for the year	**-**	**-**	**(60)**	**(2,196)**	**(552)**	**(2,808)**
Share based payments credit	-	-	-	-	(177)	**(177)**
Balance at 31 December 2018	**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: losses arising during the year	-	-	(105)	-	-	**(105)**
Tax relating to items that may be reclassified to profit or loss	-	-	-	(162)	-	**(162)**
Total comprehensive expense 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**

THE QUARTO GROUP, INC.
Condensed Consolidated Cash Flow Statement
For the year ended 31 December 2019

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 Restated (Note 1) $'000
Profit/(loss) for the year	**2,882**	**(552)**
Adjustments for:		
Net finance costs	4,930	4,360
Depreciation of property, plant and equipment	2,127	693
Software amortisation	276	298
Tax expense	962	495
Impairment of pre-publication costs	-	501
Share based payments	48	(177)
Amortisation and amounts written off acquired intangibles	811	910
Amortisation and amounts written off pre-publication costs	28,694	29,267
Operating cash flows before movements in working capital	**40,730**	**35,795**
Decrease in inventories	3,157	21
Decrease/(Increase) in receivables	8,961	(2,280)
(Decrease)/increase in payables	(8,896)	4,639
Cash generated by operations	**43,952**	**38,175**
Income taxes paid	(2,650)	(1,962)
Net cash from operating activities	**41,302**	**36,213**
Investing activities		
Interest received	9	21
Investment in pre-publication costs	(23,786)	(27,585)
Purchases of property, plant and equipment	(138)	(169)
Purchase of software	-	(77)
Acquisition of businesses	(1,250)	(1,887)
Net cash used in investing activities	**(25,165)**	**(29,697)**
Financing activities		
Interest payments	(3,709)	(2,980)
Lease payments	(1,882)	-
Drawdown of revolving credit facility	1,963	18,457
Repayment of term loan and revolving credit facility	(12,417)	(24,238)
Net cash used in financing activities	**(16,045)**	**(8,761)**
Net increase/(decrease) in cash and cash equivalents	**92**	**(2,245)**
Cash and cash equivalents at beginning of year	**15,384**	**17,946**
Foreign currency exchange differences on cash and cash equivalents	145	(317)
Cash and cash equivalents at end of year	**15,621**	**15,384**

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 2019. 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 EU, 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 unqualified audit report. The Auditor's report on these accounts does contain an emphasis of matter in relation to the fact that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern.

Statutory accounts for the year ended 31 December 2018, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies. The Auditor's report on these accounts did not draw attention to any matters by way of emphasis and did not contain statements underS498(2) or (3) Companies Act 2006. The accounting policies applied are consistent with those described in the Annual Report & Accounts for the year ended 31 December 2018, other than one new accounting standard, IFRS 16, has been adopted during the period, as discussed below.

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.

Restatement of Prior Year Results

The following tables show the restated prior year comparative figures for the financial year ended 31 December 2018. This restatement reflects a reinterpretation of the directly attributable costs and overheads that should be capitalised under IAS 38, as pre-publication costs; in the past, an element of overheads relating to indirect costs were capitalised which represents an error. The Directors accept responsibility for the error in their interpretation of IAS38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented on, by any of the Company's auditors in the intervening years. Past Company's auditors include Grant Thornton (2017 - 2019), Deloitte (2014 - 2016), Grant Thornton (2007 - 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018. The impact on the financial statements is set out below:

	As reported 2018 $000	Adjustment 2018 $000	Restated 2018 $000
Income statement			
Cost of sales	(107,195)	2,082	(105,113)
Administration expenses	(23,628)	(2,082)	(25,710)
Cash flow statement			
Amortisation and amounts written off pre-publication costs	31,426	(2,159)	29,267
Investment in pre-publication costs	(29,744)	2,159	(27,585)

	As reported 2018 $000	Adjustment 2018 $000	Restated 2018 $000	As reported 2017 $000	Adjustment 2017 $000	Restated 2017 $000
Intangible assets: pre-publication costs	56,741	(4,035)	52,706	60,278	(4,035)	56,243
Deferred tax liabilities	(8,753)	905	(7,848)	(8,520)	905	(7,615)
Net assets	21,118	(3,130)	17,988	24,103	(3,130)	20,973
Total equity	21,118	(3,130)	17,988	24,103	(3,130)	20,973

New Accounting Standards

The Group has adopted the new accounting standard IFRS 16 'Leases' during the year. The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IRFS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 or IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-to-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-to-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.29%.

The following is a reconciliation of total operating lease commitments at 31 December 2018, as disclosed in the financial statements to 31 December 2018, to the lease liabilities recognised at 1 January 2019:

	$'000
Total operating lease commitments disclosed at 31 December 2018	12,008
Recognized exemptions at 1 January 2019:	
Leases with remaining lease term of less than 12 months	(266)
Other liabilities now recognised within lease liabilities	837
	12,579
Discounted using incremental borrowing rate	(1,970)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	10,609
Of which are:	
Current lease liabilities	1,885
Non-current lease liabilities	8,724

The adoption of IFRS 16 has impacted the following items:

Impact on Balance Sheet

	1 January 2019 $'000	31 December 2019 $'000
Right-of-use assets		
Property, plant and equipment	10,609	9,683
Lease liabilities		
Trade and other payables: within one year	(1,885)	(1,937)
Trade and other payables: over one year	(8,724)	(7,929)
	(10,609)	(9,866)

The adoption of IFRS 16 on 1 January 2019 had a nil impact on the net assets of the Group due to applying the modified retrospective approach where assets equal liabilities. At 31 December 2019, lease liabilities of $9,866,000 are $183,000 higher than right-of-use assets due to the depreciation charge in the period being in excess of lease repayments, net of interest charges.

A reconciliation of the value of right-to-use assets and lease liabilities from 1 January 2019 to 31 December 2019 is presented below:

	Right-of-use assets $'000	Lease liabilities $'000
Right-of-use assets and lease liabilities at 1 January 2019	10,609	(10,609)
Depreciation	(1,609)	—
Lease payments	—	1,882
Lease interest	—	(454)
Remeasurement	526	(526)
Exchange differences	157	(159)
Right-of-use assets and lease liabilities at 31 December 2019	9,683	(9,866)

Impact on Income Statement

	2019 $'000
Reduction in occupancy expenses	1,882
(Increase) in depreciation of property, plant and equipment	(1,609)
(Increase) in exchange differences	(2)
(Increase) in interest expense	(454)
Net (decrease) in profit before tax	(183)

Going Concern

The Board initially, prior to the outbreak of Covid-19, assessed the Group's ability to operate as a going concern for the next 12 months from the date of signing the financial statements, based on a financial model which was prepared as part of the process of considering and approving the 2020 budget.

The Directors 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 2022, together with certain assumptions for revenue and costs, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

Regarding financing, the Group has raised equity of $18.5m (£13.9m), approximately $16.5m net of expenses, since the end of the year, and renewed its facilities on the remaining debt which now expire on 31 July 2021, which is outside of the going concern period. Notwithstanding, given this recent renewal, the directors believe that the debt providers will continue to support the Group thereafter.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus will peak around the end of June and trading will normalise over the subsequent few months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the investment in pre-publication costs, print volumes, staffing levels and other variable costs. The Directors have also considered the financial support commitment made by the UK Government and they believe the Group is eligible for some elements of this financial support. This has been factored in to the forecasts. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in August 2020, can be deferred to the end of the current facility.

In this scenario, whilst the Group would remain within its banking facilities, some of the financial covenants would, within the current financial year, be breached, unless a waiver agreement is reached with the majority of lenders. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within banking facilities. The Directors, as stated above, are in discussions with its lenders which, albeit at early stages, are considered as being productive. The financial covenants are tested every calendar quarter, and generally vary by each quarter.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. However, the downside scenario detailed above, including successfully taking mitigating actions, would indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

2. Operating segments

The analysis by segment is presented below. This is based upon the operating results reviewed by the Chief Executive Officer.

2019	US Publishing $000	UK Publishing $000	Total $000
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**

2018 Restated (Note1)	US Publishing $000	UK Publishing $000	Total $000
Revenue – continuing operations	**78,108**	**71,184**	**149,292**
Operating profit before amortisation of acquired intangibles and exceptional items	**5,027**	**7,708**	**12,735**
Amortisation of acquired intangibles	(596)	(254)	(850)
Segment result	**4,431**	**7,454**	**11,885**
Exceptional pre-publication asset impairment (note 3)	(1,164)	-	(1,164)
Exceptional items other (note 3)	(811)	(402)	(1,213)
	2,456	**7,052**	**9,508**
Unallocated corporate expenses			(2,430)
Corporate exceptional items (note 3)			(2,775)
Operating profit			**4,303**
Finance income			21
Finance costs			(4,381)
Loss before tax			**(57)**
Tax			(495)
Loss after tax			**(552)**

Segmental balance sheet

	2019 $000	Restated (Note 1) 2018 $000
Continuing operations:		
Quarto Publishing Group USA	**81,154**	81,960
Quarto Publishing Group UK	**64,675**	70,525
Unallocated (Deferred tax and cash)	**18,952**	19,285
Total Assets	**164,781**	171,770
Continuing operations:		
Quarto Publishing Group USA	**29,613**	30,518
Quarto Publishing Group UK	**37,634**	34,953
Unallocated (Deferred tax, corporation tax and debt)	**76,480**	88,311
Total Liabilities	**143,727**	153,782

Geographical revenue

The Group operates in the following geographical areas:

	2019 $'000	2018 $'000
United States of America	**80,131**	86,092
United Kingdom	**19,193**	20,384
Europe	**21,392**	25,314
Rest of the World	**15,091**	17,502
Total	**135,807**	149,292

3. Exceptional items

	2019 $000	2018 $000
Reorganisation costs		
- Impairment of pre-publication intangible assets	**-**	501
- Impairment of backlists	**-**	60
- Write-off of pre-publication costs	**-**	603
- Staff severance costs	**-**	1,039
- Other reorganisation costs	**-**	672
- Board changes	**-**	831
Refinancing costs	**387**	1,446
Aborted corporate transaction costs	**32**	-
Total	**419**	5,152

4. Finance costs

	2019 $000	2018 $000
Interest expense on borrowings	**3,360**	3,710
Amortisation of debt issuance costs and bank fees	**936**	301
Interest expense on lease liabilities arising from adoption of IFRS 16	**454**	-
Other interest	**189**	370
Total	**4,939**	4,381

5. Taxation

	2019 $000	2018 $000
Corporation tax		
Current year	**1,557**	73
Prior periods	**(123)**	176
Total current tax	**1,434**	249
Deferred tax		
Origination and reversal of temporary differences	**(472)**	246
Total tax expense	**962**	495

Corporation tax on UK profits is calculated at 19% (2018: 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.

	2019 $000	2018 $000
Profit/(loss) before tax	**3,844**	(57)
Tax at the UK corporation tax rate of 19% (2018: 19%)	**730**	(11)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(79)**	(101)
Adjustment to prior years	**97**	(85)
Tax effect of items that are not deductible in determining taxable profit	**174**	606
Other	**40**	86
Tax expense	**962**	495
Effective tax rate for the year	**25.0%**	(868.4)%

6. Earnings per share

	2019 $'000	2018 $'000
From continuing operations		
Profit/(loss) for the year	**2,882**	(552)
Amortisation of acquired intangibles (net of tax)	**654**	701
Exceptional items (net of tax)	**339**	4,603
Earnings for the purposes of adjusted earnings per share	**3,875**	4,752

Number of shares	**Number**	Number
Weighted average number of ordinary shares	**20,444,550**	20,444,550
Effect of potentially dilutive share options	**171,597**	256,655
Diluted weighted average number of ordinary shares	**20,616,147**	20,701,205
Earnings/(loss) per share (cents) – continuing operations		
Basic	**14.1**	(2.7)
Diluted	**14.0**	(2.7)
Adjusted earnings per share (cents)		
Basic	**19.0**	23.2
Diluted	**18.8**	23.0

7. Goodwill

	2019	2018	2017
	$000	$000	$000
Cost			
At 1 January	**42,675**	43,007	42,425
Exchange differences	**238**	(332)	582
At 31 December	**42,913**	42,675	43,007
Accumulated impairment losses			
At 1 January	**(23,721)**	(23,721)	(6,281)
Impairment	**-**	-	(17,414)
Exchange differences	**-**	-	(26)
At 31 December	**(23,721)**	(23,721)	(23,721)
Carrying value:			
At 31 December	**19,192**	18,954	19,286

The cash generating units containing goodwill are as follows:

	2019	2018	2017
	$000	$000	$000
Quarto Publishing Group USA (QUS)	**12,882**	12,882	12,882
Quarto Publishing Group UK (QUK)	**6,310**	6,072	6,404
	19,192	18,954	19,286

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. These are as follows:

	Terminal Growth Rates			Discount Rates		
	2019	2018	2017	2019	2018	2017
United States of America	2%	2%	2%	10.81%	10.90%	11.72%
United Kingdom	2%	2%	2%	10.54%	10.38%	11.16%

If a reasonably possible change occurred in either forecast revenues, terminal growth rate or discount rate, there would be no impairment. The sensitivities applied were 2.5% reduction in revenues and a 1% increase in discount rate.

8. Intangible assets: Pre-publication costs

	2019 $'000	Restated (Note 1) 2018 $'000	Restated (Note 1) 2017 $'000
Cost			
At 1 January	137,640	188,531	179,021
Exchange differences	2,040	(3,354)	4,609
Additions	23,786	27,585	33,360
Reclassification	-	-	(2,113)
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	**134,535**	137,640	188,531
Amortisation			
At 1 January	84,934	132,288	120,658
Exchange differences	1,141	(2,000)	1,822
Charge for the year	28,694	29,267	31,286
Impairment charge	-	501	4,868
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	**85,838**	84,934	132,288
Carrying value:			
At 31 December	**48,697**	52,706	56,243

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).

Inventory % of sales is the book value of inventory divided by total revenue for the year. Inventory turn is cost of sales divided by book value of inventory and measures the number of times inventory is sold through the business in a year.

	2019 $000	Restated (Note 1) 2018 $000
Adjusted Operating Profit		
Operating profit (continuing operations)	**8,774**	4,303
Add back:		
Amortisation of acquired intangibles	**811**	850
Exceptional items (note 3)	**419**	5,152
Adjusted operating profit	**10,004**	10,305
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	**10,004**	10,305
Less: net finance costs	**(4,930)**	(4,360)
Less: impact of IFRS 16	**(275)**	-
Adjusted profit before tax (before amortisation of acquired intangible and exceptional items)	**4,799**	5,945
Net finance costs	**4,930**	4,360
Depreciation (excluding right-of-use assets)	**794**	991
Share based payments	**48**	(177)
EBITDA on consistent measure	**10,571**	11,119
Impact of IFRS 16	**275**	-
Depreciation of right-of-use assets	**1,609**	-
EBITDA	**12,455**	11,119
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	**10,004**	10,305
Less: net finance costs	**(4,930)**	(4,360)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	**5,074**	5,945
Free cashflow		
Net cash from operating activities	**41,302**	36,213
Investment in pre-publication costs	**(23,786)**	(27,585)
Purchases of property, plant and equipment	**(138)**	(169)
Purchases of software	**-**	(77)
Free cashflow	**17,378**	8,382

9. Alternative performance measures (continued)

Net Debt

Short term borrowings	**66,077**	5,000
Medium and long-term borrowings	**-**	70,752
Cash and cash equivalents	**(15,621)**	(15,384)
Net debt	**50,456**	60,368

10. Principal risks and uncertainties facing the Group

a**.** Economic conditions. 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 could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. The spread of the Coronavirus is such an example. The UK's planned exit from the European Union and US-Sino relations (culminating in the introduction of tariffs during 2019) contribute to uncertainty in the economic environment. The Group has adequate facilities with up to $48m 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.

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. 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 production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that will be a replication of each other was introduced in the first half of 2018 - one in the UK and one in the US with each hosting a complete set of backlist archives.

d. Financial risk. The Group's relatively high level of debt makes the Group sensitive to interest rates and potential covenant breaches. During 2019 Quarto negotiated an Amended Facilities Agreement with its banking syndicate subject to successful completion of an open offer to shareholders in January 2020. The open offer proceeded successfully and raised $16.7m that will be used to pay down bank debt in 2020. The Group now has a bank debt facility secured until 31 July 2021. Quarto continues to benefit from a strong cost-reduction programme introduced in the second half of 2018, and introduced a competitive auction platform during 2019 to procure printing services providing additional cost savings.

e. 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. The Group maintain 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.

f. Cyber security risk. Like many organisations, the Group is at risk from cyber-attack. This presents a potentially serious risk disruption to the production process and could have a significant impact on the probability 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. The Group undertakes industry standard system penetration testing.

g. Coronavirus risk. The global spread of the coronavirus (COVID-19) can cause significant business interruption by infecting the Group's workforce; closing retail outlets and therefore impacting orders and revenues; and impairing the Group's supply chain, adding costs 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 enterprise systems that permit remote working with the minimum of interruption. The Group 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.