08 August 2017

Half-Year Results for the Six Months Ended 30 June 2017

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 2017.

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Results ($m)	H1 2017	H1 2016
Group Revenue	50.2	57.9
Adjusted[2] Group Operating (Loss)/Profit	(7.2)	(0.1)
Group Operating (Loss)/Profit	(7.6)	(0.4)
Adjusted[2] (Loss)/Profit before Tax	(8.7)	(1.6)
(Loss)/Profit before Tax	(9.2)	(1.9)
(Loss)/Profit after Tax	(5.2)	(0.9)
Net Debt	75.8	72.5
Interim Dividend	-	5.13c/3.93p

1. All results relate to continuing operations.
2. Adjusted measures are stated before amortisation of acquired intangibles and exceptional items.

Financial Highlights

- Lower than expected publishing performance with revenue down 13%.
- Lower revenue combined with higher than expected one-off, non recurring costs impacted profit, resulting in a higher adjusted loss before tax of $8.7m (H1 2016 loss: $1.6m).
- Group overheads, though lower, included one-off, non-recurring costs related to personnel and IT systems upgrades, partially offset by favourable currency movements.
- Net debt rose 5% to $75.8m (H1 2016: $72.5m) and reflects a higher first half loss, partially offset by a net reduction in working capital.
- Owing to the increased second half weighting, the Group will not pay an interim dividend but will review the final dividend policy over the coming months in consultation with shareholders.
- The Board has received a preliminary approach to acquire the Company at a price it considers to be attractive and reflective of the inherent value of the business as a global publishing platform - and hence worthy of due consideration. Discussions with the bidder are at an early stage and there can be no certainty that an offer will be made or as to the terms of any such offer.

Operational Highlights

- Continued softness in the retail environment across both domestic markets, characterised by a changing product mix and unusually high returns from key customers.
- In the US, despite a revenue contribution from becker&mayer, total revenue was affected by the significant sales of colouring books in H1 2016 which were not repeated or replaced by another trend in H1 2017.
- Adult publishing imprints and international English language co-edition sales most strongly hit by market softness. More resilient performance from Children's publishing imprints and Foreign Language sales.
- Disposals of trading businesses completed, reported within Discontinued Operations for the period to disposal.

- Strong and deep Autumn and Holiday publishing programme and healthy order book visibility for the second half of the year.

Commenting on the results, Chief Executive, Marcus Leaver said:

"As highlighted in our trading update in July, this set of results is below expectations. However, it needs to be set in the context of both a soft retail environment and the new reality of a higher second-half seasonality for the Group as a pure-play publishing business, especially with the addition of becker&mayer to our portfolio.

It has been a transitional period with the completion of the disposals of our non-core businesses while facing a challenging trading background in our key domestic markets. We have seen lower initial orders and reprints from some large customers. In particular, most of our adult imprints have performed below our expectations.

While we expect the soft retail environment to continue, we have an excellent publishing programme for the Autumn and the Holiday period - one of our strongest in the last few years. Order book visibility is healthy and our sales teams have the right plans in place to capture all possible opportunities. We have confidence throughout the Group in delivering a strong finish to the year."

For further information please contact:

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Marcus Leaver, CEO	
Dorothée de Montgolfier, Group Director of Communications	020 7700 9002

About The Quarto Group

The Quarto Group (LSE: QRT) is the leading global illustrated non-fiction book publisher. Our mission is to make and sell great books that entertain, educate and enrich the lives of adults and children around the world.

Quarto creates and owns proprietary content, publishing books from a diverse portfolio of imprints that are creatively independent and expert in developing long-lasting content across specific niches of interest.

Quarto sells books across 47 countries and in 39 languages through a variety of traditional and non-traditional channels, while constantly looking for new ways to create and deliver content that people need.

Quarto employs over 400 talented people in the US, UK and Hong Kong. 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, quartoknows.com or follow us on Twitter at @TheQuartoGroup.

This statement will be available at the registered office of the Company. A copy will also be displayed on the Company's website: www.quarto.com.

Chief Executive's Statement

SUMMARY

The first six months of 2017 have been extremely challenging and the Group's performance reflects the general weakness of the retail environment in this period, with reduced footfall and consumer confidence in both the US and the UK, resulting in lower than usual levels of business with several of our key customers.

Revenue was down by 13% at $50.2m (H1 2016: $57.9m). As a result, the adjusted group operating loss for the first six months was $7.2m (H1 2016: loss of $0.1m) and the adjusted loss before tax was $8.7m (H1 2016: loss of $1.6m). Net debt at 30 June 2016 was $75.8m (H1 2016: $72.5m), an increase of $3.3m over the twelve-month period.

It has been a transitional period for the Group, which saw the successful completion of the planned disposals of its non-core businesses, Books & Gifts Direct (BGD) Australia and Regent Publishing Services. The disposal of BGD New Zealand, the Group's last non-core business, was completed on 7 July 2017. The Group is now fully focused as a pure-play publishing business, which also results in an increased second-half weighted seasonality of full-year results - even more pronounced with the addition of becker&mayer, acquired in August 2016, to the portfolio.

While the soft retail environment is likely to continue for the balance of the year, the Group expects its strong publishing programme for the Autumn and Holiday period, combined with the continuing resilience of its backlist, to result in a significantly better overall performance in the second half. Order book visibility is healthy and the Group is confident that its sales teams have the right plans in place to help deliver a strong finish to the year.

Dividend

After consultation with a large number of shareholders, and in light of the first half performance and the increased second half weighting of full year performance now that Quarto is a pure-play publishing business, the Board has concluded that the Group will not pay an interim dividend. The Board, in consultation with shareholders, will review the final dividend policy over the coming months.

OPERATING REVIEW

Revenue ($m)	H1 2017	H1 2016
United States	29.6	34.4
United Kingdom	7.5	8.9
Rest of the World	4.9	5.3
Foreign Language	5.5	5.9
Q Partners	2.7	3.4
Total Revenue	50.2	57.9

Adjusted Operating Profit ($m)	H1 2017	H1 2016
US Publishing	(1.7)	2.4
UK Publishing	(3.6)	(0.1)
Q Partners	(0.1)	(0.1)
Group overhead	(1.8)	(2.3)
Total adjusted operating profit	(7.2)	(0.1)

Note: Revenue is shown by destination; Adjusted Operating Profit is shown by segment.

Continuing Publishing Operations

Now purely a publishing business, the Group's decline in revenue is a result of several factors prompted by the soft retail environment in the first six months of 2017 - lower initial order quantities, fewer reprints, changing product mix and higher than usual returns from a few key customers. In addition, there were still significant sales of colouring books in H1 2016 which have not been repeated or replaced by another trend in H1 2017. The quality of our Autumn and Holiday frontlist combined with lower return rates should alleviate these pressures for the remainder of the year.

Adult imprints have under-performed our expectations in both domestic markets. Adults' publishing revenue for the first six months of 2017 was $34.4m, 18% lower than the same period last year of $42.0m. That said, we are confident in the quality of our Autumn and Holiday frontlist and expect a significantly better performance in the second half. Forthcoming highlights include eight titles in our Scratch & Create adult activity series, new releases from established authors and new titles in some of our most successful publishing series such as the 1001 and the 30 Seconds series.

Children's imprints have performed resiliently despite pockets of softness, for instance in the educational market. Children's publishing revenue for the first six months of 2017 was $13.4m, 3% higher than the same period last year of $13.0m, including the impact of becker&mayer, acquired in August 2016. We have a very solid frontlist for the second half of the year and expect to show growth over the full year. Wide Eyed Editions and Frances Lincoln Children's Books continue to be successful, as demonstrated by the 'Little People, Big Dreams' series. New titles this Autumn should boost this performance further. We also expect Imagine, a unique picture book based on the John Lennon song and produced in partnership with Amnesty International, to do well with encouraging initial order quantities and 15 foreign editions already sold.

Our Foreign Language business is trading in line with expectations at this time of year, with particularly strong performance from our Children's lists. Overall, we expect the business to show growth for the full year, despite uncertainties in some of the markets in which we conduct business.

Our publishing partnerships and distribution business, Q Partners, is also performing in line with expectations at this time of year. We now have three international publishing partnerships - in Brazil (Quarto Editora), in the Middle East and North Africa (Kalimat Quarto) and a new Spanish language imprint, Quarto Iberoamericana, launching in October 2017 across North and South America. We have recently secured two new distribution agreements - Zest Books and the Viz Annual.

Discontinued Operations

The results from discontinued operations includes the trading results of Regent Publishing Services and BGD Australia to 31 March 2017 and the related profit and loss on disposal on that date. The disposal of the trade and selected assets of BGD New Zealand was completed on 7 July 2017. The trading results for the period are included within discontinued operations.

Further details of these transactions are included in Note 5.

Group overheads

Group overheads, while reducing against prior year and including favourable currency impacts, reflect the inclusion for the first time of becker&mayer as well as some costs arising from the search for a new Chief Financial Officer, some one-time professional fees and expenses related to IT systems upgrades. These are largely non-recurring costs and we expect to return to a normalised level in the second half.

OUTLOOK

Following the disposals of its non-core businesses, Quarto is now fully focused as a pure-play publishing business, with full year results even more dependent on the second half year performance than in previous years.

While the soft retail environment is likely to continue for the balance of the year, the levels of returns and some of the overhead costs incurred in the first half year are not expected to recur in the second half.

The Group's Autumn and Holiday publishing programme is one of the strongest in the last few years, co-edition order book visibility is healthy and sales teams in all channels and markets around the world have the right plans in place to capture all possible opportunities. Overall, management is confident that the Group will deliver a strong finish to the year.

The Group is in the process of agreeing amendments to its banking facilities. This will allow greater flexibility over the remaining term, particularly in light of the pronounced seasonality of the business and degree of sensitivity around working capital movements as previously reported. The level of net debt continues to be monitored and managed closely.

As announced today, the Board has received a preliminary approach to acquire the Company at a price it considers to be attractive and reflective of the inherent value of the business as a global publishing platform - and hence worthy of due consideration. Discussions with the bidder are at an early stage and there can be no certainty that an offer will be made or as to the terms of any such offer.

On behalf of the Board, I would like to thank all our people for their perseverance and commitment in this challenging environment, as well as our partners and suppliers across the world.

Marcus E. Leaver
Chief Executive

Condensed Consolidated Income Statement
For the six months ended 30 June 2017

	Note	Six months to 30 June 2017	Six months to 30 June 2016 (Restated)*	Year ended 31 December 2016
		Unaudited	Unaudited	Audited
		$'000	$'000	$'000

Continuing operations				
Revenue	2	50,159	57,878	154,610
Cost of sales		(41,730)	(41,726)	(103,916)
Gross profit		8,429	16,152	50,694
Distribution costs		(3,265)	(3,295)	(6,870)
Administrative expenses		(12,371)	(12,907)	(26,835)
Operating profit before amortisation of acquired intangibles and exceptional items		**(7,207)**	**(50)**	**16,989**
Amortisation of acquired intangibles		(418)	(305)	(654)
Exceptional items	3	-	-	(191)
Operating profit/(loss)	2	**(7,625)**	**(355)**	**16,144**
Finance costs		(1,528)	(1,566)	(3,109)
(Loss)/profit before tax		**(9,153)**	**(1,921)**	**13,035**
Tax credit/(charge)	4	2,655	1,071	(3,756)
(Loss)/profit for the period from continuing operations		**(6,498)**	**(850)**	**9,279**
Discontinued operations				
Profit/(loss) for the period from discontinued operations	5	1,243	(14)	(14,556)
(Loss)/profit for the period		**(5,255)**	**(864)**	**(5,277)**
Attributable to:				
Owners of the parent		(5,229)	(1,083)	(5,697)
Non-controlling interests		(26)	219	420
		(5,255)	**(864)**	**(5,277)**
(Loss)/earnings per share (cents)				

From continuing operations				
Basic	6	(31.8)	(4.3)	46.4
Diluted	6	(31.8)	(4.3)	45.4
From continuing and discontinued operations				
Basic	6	(25.6)	(5.5)	(28.5)
Diluted	6	(25.8)	(5.4)	(27.9)

* Restated as set out in Note 1.

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2017

	Six months to 30 June 2017	Six months to 30 June 2016 (Restated)*	Year ended 31 December 2016
	Unaudited $'000	Unaudited $'000	Audited $'000
Loss for the period	(5,255)	(864)	(5,277)
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences	3,807	(1,991)	706
Cash flow hedge: profits/(losses) arising during the period	30	(170)	150
Tax relating to items that may be reclassified to profit or loss	-	34	(1,609)
Total comprehensive (expense)/income for the period	(1,418)	(2,991)	(6,030)
Attributable to:			
Owners of the parent	(1,392)	(3,228)	(6,460)
Non-controlling interests	(26)	237	430
	(1,418)	(2,991)	(6,030)

* Restated as set out in Note 1

Condensed Consolidated Balance Sheet
At 30 June 2017

	Note	30 June 2017	30 June 2016 (Restated)*	31 December 2016
		Unaudited	Unaudited	Audited
		$'000	$'000	$'000
Non-current assets				
Goodwill	8	36,468	39,685	36,144
Other intangible assets		3,816	1,936	4,351
Property, plant and equipment		2,296	3,560	1,857
Intangible assets: Pre-publication costs		63,946	58,139	61,133
Deferred tax assets		2,824	-	2,022
Total non-current assets		109,350	103,320	105,507
Current assets				
Inventories		21,159	21,610	24,006
Trade and other receivables		41,005	42,079	54,162
Derivative financial instruments		179	18	141
Cash and cash equivalents	9	6,800	7,710	18,824
Assets held for sale		949	-	-
Total current assets		70,092	71,417	97,133
Total assets		179,442	174,737	202,640
Current liabilities				
Short term borrowings	9	(5,000)	(5,000)	(5,000)
Derivative financial instruments		(58)	(180)	(94)
Trade and other payables		(40,233)	(38,507)	(59,718)
Tax payable		(1,695)	(1,258)	(4,060)
Liabilities held for sale		(198)	-	-
Total current liabilities		(47,184)	(44,945)	(68,872)
Non-current liabilities				
Medium and long term borrowings	9	(77,720)	(75,247)	(75,748)
Deferred tax liabilities		(11,093)	(6,277)	(10,502)
Other payables		(6,358)	(44)	(3,407)
Total non-current liabilities		(95,171)	(81,568)	(89,657)
Total liabilities		**(142,355)**	**(126,514)**	**(158,529)**
Net assets		**37,087**	**48,224**	**44,111**

Equity			
Share capital	2,045	2,045	2,045
Paid in surplus	33,764	33,764	33,764
Retained profit and other reserves	1,278	7,517	3,410
Equity attributable to owners of the parent	**37,087**	**43,326**	**39,219**
Non-controlling interests	-	4,898	4,892
Total equity	**37,087**	**48,224**	**44,111**

* Restated as set out in Note 1.

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2017

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Treasury shares	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total
	$000	$000	$000	$000	$000	$000	**$000**	$000	**$000**
Balance at 1 January 2017	**2,045**	**33,764**	**140**	**(8,850)**	**-**	**12,120**	**39,219**	**4,892**	**44,111**
(Loss)/profit for the period	-	-	-	-	-	(5,229)	**(5,229)**	(26)	**(5,255)**
Foreign exchange translation differences	-	-	-	3,807	-	-	**3,807**	-	**3,807**
Cash flow hedge: profits arising during the year	-	-	30	-	-	-	**30**	-	**30**
Total comprehensive (expense)/income for the period	-	-	30	3,807	-	(5,229)	**(1,392)**	(26)	**(1,418)**
Dividends to shareholders	-	-	-	-	-	(2,018)	**(2,018)**	-	**(2,018)**
Dividend in-specie paid to non-controlling interests	-	-	-	-	-	-	**-**	(3,744)	**(3,744)**

Adjustment arising from change in non-controlling interests	-	-	-	-	-	1,122	1,122	(1,122)	-
Share based payment charge	-	-	-	-	-	156	156	-	156
Balance at 30 June 30 2017	**2,045**	**33,764**	**170**	**(5,043)**	**-**	**6,151**	**37,087**	**-**	**37,087**
Balance at 1 January 2016	**2,045**	**33,764**	**(10)**	**(8,064)**	**(634)**	**22,780**	**49,881**	**5,159**	**55,040**
Prior year adjustment	-	-	-	127	-	(1,723)	**(1,596)**	-	**(1,596)**
Balance at 1 January 2016 (Restated)*	**2,045**	**33,764**	**(10)**	**(7,937)**	**(634)**	**21,057**	**48,285**	**5,159**	**53,444**
(Loss)/profit for the period	-	-	-	-	-	(1,083)	**(1,083)**	219	**(864)**
Foreign exchange translation differences	-	-	- -	(2,009)	-	-	**(2,009)**	18	**(1,991)**
Cash flow hedge: losses arising during the year	-	-	(170)	-	-	-	**(170)**	-	**(170)**
Tax relating to items that may be reclassified to profit or loss	-	-	34	-	-	-	**34**	-	**34**
Total comprehensive (expense)/income for the period	-	-	(136)	(2,009)	-	(1,083)	**(3,228)**	237	**(2,991)**
Dividends to shareholders	-	-	-		-	(1,826)	**(1,826)**	-	**(1,826)**
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(498)	**(498)**
Share based payment charge	-	-	-	-	-	95	**95**	-	**95**
Balance at 30 June 30 2016	**2,045**	**33,764**	**(146)**	**(9,946)**	**(634)**	**18,243**	**43,326**	**4,898**	**48,224**

* Restated as set out in Note 1.

Year ended 31 December 2016 (Audited)

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Treasury shares	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 January 2016	2,045	33,764	(10)	(7,937)	(634)	21,057	48,285	5,159	53,444
(Loss)/profit for the year	-	-	-	-	-	(5,697)	(5,697)	420	(5,277)
Foreign exchange translation differences	-	-	-	696	-	-	696	10	706
Cash flow hedge: profits arising during the year	-	-	150	-	-	-	150	-	150
Tax relating to items that may be reclassified to profit or loss	-	-	-	(1,609)	-	-	(1,609)	-	(1,609)
Total comprehensive income for the year	-	-	150	(913)	-	(5,697)	(6,460)	430	(6,030)
Dividends paid to shareholders	-	-	-	-	-	(2,902)	(2,902)	-	(2,902)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(697)	(697)
Share based payments	-	-	-	-	-	256	256	-	256
Shares released/sold from treasury	-	-	-	-	634	(594)	40	-	40
Balance at 31 December 2016	2,045	33,764	140	(8,850)	-	12,120	39,219	4,892	44,111

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2017

	Six months to 30 June 2017	Six months to 30 June 2016 (Restated)*	Year ended 31 December 2016
	Unaudited $'000	Unaudited $'000	Audited $'000
(Loss)/profit for the period	(5,255)	(864)	(5,277)
Adjustments for:			
Net finance costs	1,528	1,511	2,945
Depreciation of property, plant and equipment	537	397	1,080
Tax (credit)/expense	(2,655)	(921)	3,991
Share based payment charge	156	95	256
Amortisation of acquired intangibles	418	330	705
Profit/(loss) on discontinued operations	(2,538)	-	-
Non-cash exceptional items	-	-	14,203
Amortisation and amounts written off pre-publication costs	14,921	14,186	30,540
Movement in fair value of derivatives	(31)	47	120
Operating cash flows before movements in working capital	7,081	14,781	48,563
Decrease/(increase) in inventories	2,410	3,112	1,270
Decrease/(increase) in receivables	10,923	13,362	1,628
(Decrease)/increase in payables	(11,296)	(24,305)	(7,715)
Cash generated by operations	9,118	6,950	43,746
Income taxes paid	-	(470)	(1,436)
Net cash from operating activities	9,118	6,480	42,310
Investing activities			
Interest received	-	55	164
Investment in pre-publication costs	(16,222)	(17,250)	(37,165)
Purchases of property, plant and equipment	(851)	(709)	(1,562)
Disposal of subsidiaries	3,650	-	-
Acquisition of publishing assets	(4,041)	(130)	(3,718)
Net cash used in investing activities	(17,464)	(18,034)	(42,281)
Financing activities			

Dividends paid	(2,018)	(1,826)	(2,902)
Interest payments	(1,322)	(1,552)	(2,725)
External loans repaid	(5,432)	(2,013)	(5,000)
External loans drawn	5,000	-	5,583
Dividends paid to non-controlling interests	-	(498)	(697)
Net cash (used)/from in financing activities	(3,772)	(5,889)	(5,741)
Net (decrease)/increase in cash and cash equivalents	(12,118)	(17,443)	(5,712)
Cash and cash equivalents at beginning of period	18,824	25,059	25,059
Foreign currency exchange differences on cash and cash equivalents	94	94	(523)
Cash and cash equivalents at end of period	6,800	7,710	18,824

* Restated as set out in Note 1.

Notes

The notes are available in the printable pdf of the results. To download it, please **click here**.