

09 November 2017

Trading update

The Quarto Group, Inc. (LSE: QRT, "Quarto" or "the Group"), the leading global illustrated book publishing group, publishes the following trading update for the current financial year ending 31 December 2017.

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Headlines:

- Strong publishing list drives solid H2 trading performance to more than recover the H1 loss but will not be enough to meet Board expectations for full year profits.
- Full year adjusted profit before tax now expected to be significantly lower than Board expectations.
- H2 Group revenue expected to be higher than H2 2016 but full year Group revenue to be marginally lower than 2016.
- Year-end net debt expected to be lower than net debt at 30 June 2017 but to increase year on year.
- Children's and Foreign Rights businesses continue to perform strongly.
- Tough retail environment, finance team restructure and unsolicited offer to purchase the Group were significant additional challenges during a transitional year.
- With the competing pressures of paying dividends, reducing debt and investing in the core business, the Board will not be recommending the payment of a final dividend.
- Now fully transitioned to a pure-play publishing business. Tight control and restructure in parts of the business supporting more operational agility.
- 2018 focus will be on organic growth and granular asset management, as well as strengthening the balance sheet as a platform for growth, with the Children's and Foreign Rights businesses building on their momentum.
- Strategy remains to grow organically and by acquisition, and to drive c.60% annual recurring revenue through the Group's enduring backlist and innovative use of its IP catalogue.

Marcus E. Leaver, Chief Executive, commented:

"2017 was headlined as a transitional year, selling our non-core businesses to become a pure-play publishing business. Many aspects of the execution of this

strategy went well, some less so; the re-structuring of the finance team and the unsolicited offer for the Group were significant additional challenges.

"The resilience of the total business is reflected in a strong H2 trading performance which will more than recover the H1 loss, although not enough to claw back to earlier Board expectations for the full year.

"Whilst we have successfully transformed the business in the last few years, the competing pressures of servicing our debt, paying dividends, and investing in the core business currently inhibit our ability to grow.

"We are focusing on building the enhanced operational agility we need within our business to operate in an ever-changing market environment and the global markets in which we sell our intellectual property.

"In 2018 we have two clear objectives - more granular asset management particularly in our Adults publishing portfolio, brought about by enhanced financial systems and control, as well as looking at all options to reduce our debt and strengthen the balance sheet."

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About The Quarto Group

The Quarto Group (LSE: QRT) is the leading global illustrated book publishing group. 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 50 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 or follow us on Twitter at [@TheQuartoGroup](https://twitter.com/TheQuartoGroup).

Strategic update

As anticipated, 2017 has been a transitional year for Quarto with the Group selling its last three non-core businesses while integrating a sizeable acquisition. The Group is now fully transitioned to a pure-play publishing business with control of its intellectual property assets and is in the process of developing enhanced financial systems. The Board remains fully confident of Quarto's prospects.

Trading in 2017

The resilience of the Group's business means that trading in H2 is in line with the equivalent period in 2016, however following the weak H1 trading performance, Group revenue for the full year is expected to be marginally lower than 2016.

The quality of the publishing programme for the Autumn and Holiday period, the ongoing solid performance of the Children's and Foreign Rights businesses, tight operational control and restructuring in parts of the business have all contributed to the H2 performance.

As expected, the levels of returns and some of the overhead costs incurred in H1 have not recurred in H2. Becker&Mayer, acquired in August 2016, is expected to have a healthy first full year.

H2 performance is expected to recover the losses accumulated in H1, however it will not be enough to meet earlier Board expectations. As a result, the Group now expects that its full year adjusted profit before tax will be significantly lower than Board expectations.

Sales volatility remains high, whilst parts of the Adults portfolio continue to underperform due to both market and specific channel softness. Broader industry shifts continue to impact this segment. A number of Adults imprints are currently being reviewed to reduce the Group's cost base in this area, thereby giving Quarto more flexibility to re-allocate assets towards faster-growing parts of the business.

The Board will not be recommending the payment of a final dividend for the current year. Taking into account the competing pressures of paying dividends, reducing debt and investing in the core business, the Board continues to look at all options to reduce the debt and to restructure the balance sheet.

The Group expects its year-end net debt to be lower than net debt at 30 June 2017 but to increase year on year, impacted in part by deferred consideration and dividend payments. The Group is currently working with its banking syndicate on amendments to terms, including putting in place a standard security package.

Considering the need to focus on the business and operations during this transitional period, and the comprehensive work of the Interim Chief Financial

Officer, the Board now expects to announce a permanent appointment in early 2018.

The Board has also approved the proposed appointment of Grant Thornton UK LLP as Quarto's auditor for the financial year ending 31 December 2017, following a tender process led by the new Chair of the Audit Committee, Leslie-Ann Reed.

Outlook

In 2018, the Group's primary focus will be on organic growth in its Children's business, and more granular asset management in its Adults portfolio, in order to return to acceptable profit levels and significantly reduce the H1 loss; on becoming more operationally agile; and on strengthening its balance sheet as a platform for growth in an ever-changing market environment.

In the medium to long-term, the Group reaffirms its strategy to grow organically and by acquisition, to drive c.60% annual recurring revenue through its enduring backlist and re-use of its IP catalogue, as well as to continue innovating from within the business.