29 March 2018

Final Results for the Year Ended 31 December 2017

The Quarto Group Inc. (LSE: QRT, "Quarto" or "the Group"), the leading global illustrated book publisher, announces its audited results for the year ended 31 December 2017.

- Highlights
- Strategic overview
- Operating review
- Financial review
- Income Statement
- Statement of Comprehensive Income
- Balance Sheet
- Statement of Changes in Equity
- Cash Flow Statement
- Notes

Download

The full results are available to **view and download in PDF format**

Presentation

View the slides of the **Results Presentation**

Results ($m)	2017	2016
Revenue	152.5	154.6
Adjusted Operating Profit*	7.2	17.0
Operating (Loss)/Profit	(17.9)	16.1
Adjusted Profit Before Tax*	3.9	13.9
(Loss)/Profit Before Tax	(21.2)	13.0
Exceptional Items	24.2	0.2
Loss After Tax	(18.5)	(5.3)
Adjusted Earnings per Share from continuing operations	18.3c	49.8c
Basic (Loss)/Earnings per Share from continuing operations	(96.4)c	46.4c
Net Debt	64.0	61.9
Total dividend for the year	nil	15.0c

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

Included in the 2016 results was a one-time reduction in the amortisation charge arising from a change in the Useful Economic Life (UEL) of capitalised pre-publication costs of $2.1m.

Headlines

- Stronger trading performance in H2 - revenue up 5.8% vs prior year.
- Children's publishing revenues up 19% (7% excluding becker&mayer acquisition in Q3 2016), now representing third of Group revenues. Up 165% since 2012.
- Foreign Rights business continues to perform strongly - revenue up 6%.
- Frontlist/backlist revenue split comparable year-on-year - 60.3% revenue generated from backlist titles.
- Net debt at $64.0m (2016: $61.9m) down from $75.8m at 30 June 2017.
- As previously announced, with the competing pressures of paying dividends, reducing debt and investing in the core business, the Board has not recommended the payment of a final dividend.
- Transitional year:
    - Refocused vision and strategy - now pure-play intellectual property business.
    - Tough retail environment, finance team restructured and unsolicited offer.
- Change to financial year-end from 31 December to 31 March to better balance seasonality between fiscal H1 and H2.

2018 Focus

- Momentum from H2 2017.
- Organic revenue and margin growth.
- Continuing restructuring in parts of Adults portfolio to support more operational agility.
- Strengthening the balance sheet as a platform for growth.

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

"While 2017 was, overall, a transitional and challenging year, we are particularly pleased with our stronger trading performance in H2 - our Children's and Foreign Rights businesses showing significant growth once again, when many others in our industry struggled.

"Quarto is now fully focused on what we do best - creating a variety of books and intellectual property products that inspire life's experiences for the whole family, and selling them globally through diversified sales channels and partnerships.

"Our strategy remains to grow organically, through innovation and, where applicable, by acquisition, and to continue to drive c. 60% annual recurring revenue through our enduring backlist and to leverage our rich IP catalogue.

"We have moved into 2018 with clear objectives about continuing to realign our portfolio with the broader market and consumer trends, and making the financial and operational improvements required to fulfil our ambitions - including strengthening our balance sheet as a platform for growth.

"Since the year end, the Group has been trading in line with the Board's expectations."

For further information, please contact:

The Quarto Group, Inc.

Marcus Leaver, CEO Brian Porritt, Interim CFO Dorothée de Montgolfier, Group Director of Communications	+44 20 7700 9002

Instinctif Partners

Adrian Duffield/Chantal Woolcock +44 20 7457 2077

About The Quarto Group

The Quarto Group (LSE: QRT) creates a wide variety of books and intellectual property products for global distribution, 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 kinesthetically 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 its products globally in over 50 countries and 40 languages, through a variety of sales channels and partnerships, and five main routes to market - US, UK, International English language, Foreign language and other Partnerships.

Quarto employs c. 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**.

back to top

Strategic overview

2017 was a transitional year. It encompassed difficult and volatile trading conditions, the disposal of our last non-core businesses, the integration of a sizeable acquisition, the restructuring of the finance team and the handling of an unsolicited offer for the Group.

A poor H1 performance, with continued softness from H2 2016, was followed by a stronger performance in H2 2017, with revenue up 5.8% year-on-year. The business showed resilience in a year when many others in the industry struggled.

Overall, adjusted operating profit is down 58% while revenue only declined marginally by 1.4%.

The Group's operating margin was impacted by a combination of factors including high levels of returns, rising cost of goods and royalty expenses as trade sales become a larger part of the product mix, and higher product development costs owing to the integration of becker&mayer.

Industry shifts such as the changing product mix and the lack of any notable growth in the mature Adults publishing market are unlikely to change, and we continue to restructure a number of our Adults imprints to realign our portfolio with broader market trends.

Children's publishing revenues grew 19% year-on-year, both organically and through acquisition with the first full year contribution from becker&mayer. They have increased by 165% since 2012.

Our Foreign Rights sales team achieved another year of revenue growth, up 6% year-on-year. As we continually seek to further expand our scale and reach across the globe, our new Spanish language imprint in North and South America, in partnership with Catapulta Editores, was also a major highlight.

The Group ended the year with net debt of $64.0m (2016: $61.9m) down from $75.8m at 30 June 2017. Net debt is down 21% since 2012 but is still sizeable. It has become clear that the competing pressures of servicing debt, paying dividends, and investing in the core business currently inhibit Quarto's ability to grow by acquisition. The Group is therefore looking at all options to strengthen the balance sheet and will keep all stakeholders updated with its progress.

Quarto is now firmly looking to the future as a pure play intellectual property business creating a wide variety of books and intellectual property products for global distribution. Produced in many formats for both Adults and Children's, they are visually appealing, information rich or kinesthetically stimulating. All of them inspire life's experiences for the whole family.

The Group, now one third Children's products and two thirds Adults products has been transformed as the English language co-edition market declines further. The acquisitions made since 2014 have renewed the portfolio and content pipeline, and the shape of the Group today is largely a solid platform from which to grow.

Our model remains effective and agile: talented people making high quality and long-lasting products across a balanced portfolio of creative businesses, with efficient processes, supported by a scalable operating platform that adapts to market conditions.

Quarto sells its products globally, in 50 countries in 40 languages, through a variety of sales channels and partnerships and five main routes to market - US, UK, International English language, Foreign language and other Partnerships.

The Group's strategy remains to grow organically as we continually examine and manage our portfolio; through innovation, be it product, communication, business or process transformation; and where applicable, by acquisition, within a fragmented and artisan business landscape that can offer attractive opportunities.

Outlook

Quarto is now fully focused as a pure-play intellectual property business with a refocused vision and a clear growth strategy.

The Group's strategy addresses the trends observed in its core publishing market, which in the US and the UK combined is worth an estimated $14.4bn*. Children's books have grown ahead of other categories in recent years, while eBook sales have been flat-lining with limited success outside of Adult fiction. In the retail space, the market share of physical book specialists continues to decrease vs online retailers and physical non-book specialists.

Quarto expects the volatile trading environment to continue in 2018, with ongoing softness in specific channels. Its primary focus this year will be on strengthening the balance sheet and growing margins.

The Group expects a steady recovery with some organic growth in Children's, softer foreign language markets, and continuing remedial action in the Adults portfolio, to drive improved cash generation.

As expected, 2018 full year results will be once again dependent on the second half year performance. The Board has decided to change the year end from 31 December to 31 March, which will better align with the operational needs of a seasonal business. It will enable the business to fully focus on the critical fourth quarter sales period and effect a more balanced spread of revenue between the reported fiscal half years.

In the medium to long term, our strategy remains to grow organically, through innovation and, where applicable, by acquisition and to continue to drive c. 60% annual recurring revenue through the Group's enduring backlist and innovative use of its rich IP catalogue.

Since the period end, the Group has been trading in line with the Board's expectations.

* Report commissioned by and produced for The Quarto Group in November 2017 by Pragma Consulting Limited as part of a strategic market and channel review.

Operating review

back to top

As previously announced, following the Group's refocus on our core publishing activities and a new organisational structure, we have changed our segmental reporting. Revenue is reported by the geography in which the product is sold, with five main routes to market - US, UK, International English language, Foreign language and other Partnerships. Adjusted Operating Profit is reported by IP portfolio, where the product is generated - US Publishing, UK Publishing and Q Partners.

Revenue ($m)	2017	2016
United States of America	81.8	83.5
United Kingdom	20.4	20.9
Rest of the World	10.3	11.5
Foreign Rights	34.4	32.5
Q Partners	5.6	6.2
Total Revenue	152.5	154.6

Adjusted Operating Profit ($m)	2017	2016
US Publishing	4.6	9.4
UK Publishing	7.1	12.4
Q Partners	(0.4)	(0.1)
Group overhead	(4.1)	(4.7)
Total adjusted operating profit	7.2	17.0

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

Routes to market

In the US, revenue was $81.8m, down 2.0% year-on-year (2016: $83.5m) as a result of several factors including a softer retail environment, especially in H1 - lower initial order quantities, fewer reprints, and higher than usual returns from a few key customers. In addition, there were still significant sales of Adult colouring books in H1 2016 which did not repeat in H1 2017. However, US reported revenues did benefit from the first full-year results of becker&mayer. Without these, the US revenue decline was 9.2%.

UK revenue was $20.4m, down 2.4% year-on-year (2016: $20.9m). Besides the soft retail environment and unusually high level of returns, also observed in the US, the UK has been facing a more structural industry shift characterised by an increase in trade sales, partially offsetting a decline in English Language co-edition sales.

Within the UK and the US, we are seeing a continuing shift away from traditional channels, including trade retail, towards online trade and other non-traditional channels.

Foreign Language sales achieved another record year with revenues of $34.4m, up 6% year-on-year, through a mix of co-edition, license and royalty deals sold to over 550 customers in 50 territories and 40 languages. This performance is particularly commendable given the currency fluctuations in some of the markets in which we conduct business, and demonstrates the solid, enduring relationships the team have built with co-edition partners all over the world. The largest part of the revenue comes from continental Europe, including France, Germany, the Netherlands, the Nordics and Eastern & Central European countries, with growing contributions from Asia and South America, as well as an increased success in Children's Publishing.

In its first full year, our publishing partnerships and distribution business, Q Partners, performed in line with expectations. Revenue was down 11% to $5.6m (2016: $6.3m). We launched a new Spanish language imprint, Quarto Iberoamericana, in November 2017 across North and South America and to date its progress has been encouraging. Our distribution partner has shown an impressive ability to distribute significant quantities of adult titles into the market place. The key title of our launch list, Frida Kahlo at Home, has sold out throughout all territories within four months of publication.

In Brazil, Quarto Editora strengthened its presence with 85 titles published in 2017, including two titles that made it into best-selling lists. Revenue has continued to increase. In the Middle East and North Africa, Kalimat Quarto operates with high margins although volumes remain low.

We secured new distribution agreements in 2017: Zest Books, Porter Press, Connell Publishing, the Viz Annual and Clever Publishing.

We continue to look for new distribution partners from around the world, in particular North America and the UK, but also in international markets.

Intellectual property portfolio

The heart of the business is its creative and development capabilities where the intellectual property products of Quarto are produced. Each one of our imprints and businesses within our portfolio is creatively independent and caters for different audiences and markets.

Our most profitable imprints were Quarto Children's Books/QED Publishing (UK, founded in 1990), Lincoln Children's Books (UK, acquired in 2011, relaunched in 2014), Walter Foster Publishing (US, acquired 1996), becker&mayer (US, acquired in 2016) and Ivy Press (UK, acquired in 2015).

Portfolio highlights

The highlights of our top-selling titles in 2017 demonstrate what Quarto does best: a wide variety of books and products, each with a different vision and a specific market in mind, and the view to sell over a long period of time.

The overall portfolio is extremely well diversified with no single title or series accounting for more than 0.7% of our total revenue (TR).

Adults

- Creative Lettering and Beyond - Walter Foster, published 2014: $691k revenue (0.5% of TR)
- Star Wars: Stormtroopers - becker&mayer books, published 2017: $627k (0.4% of TR)
- 1001 Movies You Must See Before You Die (2017 Edition) - Quintessence, first Published 2001: $441k (0.3% of TR)

- Wonder Woman Ambassador of Truth - becker&mayer books, published 2017: $389k (0.3% of TR)
- 1001 Photographs You Must See Before You Die - Quintessence, published 2017: $381k (0.3% of TR)
- New Views - Aurum Press, published 2017: $367k (0.2% of TR)

Children's

- Little People, Big Dreams series (nine titles) - Lincoln Children's Books, first published 2016: $1.1m revenue (0.7% of TR)
- Build The Human Body, Build The T.Rex and Build A Rocket - Quarto Children's Books, first published 2013: $857k (0.6% of TR)
- Etch Art series (two titles) - Wide Eyed Editions, both published 2017: $738k (0.5% of TR)
- Smart Circuit: Electronics Lab - SmartLab Toys, published 2016: $650k revenue (0.4% of TR)
- Imagine - Lincoln Children's Books, published 2017: $606k (0.4% of TR)
- Ultimate Secret Formula Lab - SmartLab Toys, published 2016: $523k (0.3% of TR)

Overall, Adults publishing revenues declined 9.2% while Children's publishing revenues grew 19% - by acquisition through becker&mayer's first full year but also organically, with a solid performance throughout the year despite areas of softness, for example in the educational market.

Children's publishing continues to remain an area of strong focus and growth. Revenues now represent one third of the Group's overall revenue and have grown by 165% since 2012 organically, by innovative reorganisation of existing assets and by acquisition.

Parts of our Adults portfolio under-performed expectations in both US and UK markets, but more significantly in the UK. We continue to review a number of our imprints to realign our portfolio with broader market trends and give the Group more flexibility to re-allocate assets towards faster-growing parts of the business. We have consolidated seven of our UK-based Adults imprints into two new entities: White Lion Publishing in London and The Bright Press in Brighton.

The revenue split between frontlist titles (published in 2017) and backlist titles (published before 2017) was comparable year-on-year, with 60.3% of publishing revenues generated from backlist titles vs 58.3% in 2016. This is consistent with Quarto's strategy to generate c. 60% annual recurring revenues from the Group's rich IP catalogue and reflects its expertise in creating long-lasting content.

Adults titles represented 67% of backlist revenues (2016: 79%) and 67% of frontlist revenues (2016: 73%), while Children's titles represented 33% of backlist revenues (2016: 21%) and 33% of frontlist revenues (2016: 27%). Even though Children's is more naturally frontlist-led, the increased proportion of Children's titles in the backlist can be explained as some of the Group's imprints, only started a couple of years ago, are now becoming established businesses.

US Publishing

US Publishing adjusted operating profit was down 51% to $4.6m (2016: $9.4m).

There were some significant one-time factors to this decline:

1. The 2016 US adjusted operating profit included a gain of $0.8m relating to the change in the Useful Economic Life of capitalised pre-publication investment. A far smaller gain also arose in 2017 as the change phased in.
2. Far higher than expected returns of adults colouring books were taken in 2017 with impacts on net revenue, inventory obsolescence and on distribution costs due to the related processing costs.

3. Distribution costs were also higher in 2017 as a result of running two warehouses for SmartLab for most of the year. These have now been consolidated into one.

Some of the elements of the 2017 margin decline are ongoing challenges which the Group will address in 2018 and the following years. Product development costs have increased following the acquisition of becker&mayer as some of their products, including SmartLab products, require higher initial investments. Price increases for raw materials and printing are being mitigated by operational efficiency gains but this is an ongoing challenge and area of focus. Royalty costs are increasing due to changes in product mix as the proportion of co-edition sales declines relative to trade sales. Sales and Marketing expenses increase as the proportion of sales to online channels grows, although returns rates reduce.

UK Publishing

UK Publishing adjusted operating profit was $7.1m, down 43% (2016: $12.4m), due to a combination of factors noted below.

The 2016 UK adjusted operating profit included a gain of $1.3m relating to the change in the Useful Economic Life of capitalised pre-publication investment. A far smaller gain also arose in 2017 as the change phased in.

2017 saw unusually high levels of returns due to the volatile retail environment. Returns at this level are not expected to recur in 2018.

As mentioned above, we have also observed a significant decline in English Language co-edition sales, which we believe is structural and will continue, although at a lower rate than the sharp drop experienced in 2017.

Finally, increased royalty costs have impacted profitability, due to the increasing mix of sales to the trade. This trend is expected to continue.

Q Partners

Q Partners made a small loss of $0.4m in 2017 (2016: loss $0.1m) due to the investment needed to set up our third partnership - the new Spanish language imprint, Quarto Iberoamericana.

Overall, this business is performing in line with the Group's expectations as we recognise that it will take a few years to generate more substantial volumes.

back to top

Financial review

Revenue

Group revenue declined marginally by 1.4% to $152.5m (2016: $154.6m). A poor H1 performance, with continued softness from H2 2016, was followed by a stronger performance in H2 2017, with revenue up 5.8% year-on-year.

Margin

Adjusted Operating Margin has declined in 2017 from 11.0% to 4.7%. As noted in the comments about the US and UK divisions above, the overall $2.1m benefit booked in 2016 for the change in the Useful Economic Life (UEL) of capitalised pre-publication costs contributes to this, albeit offset by a far smaller gain in 2017. Also, as noted in the divisional comments above, other impacts have been the high levels of returns experienced in 2017, particularly of Adults Colouring Books, but also rising cost of goods and royalty expenses. Additionally, the amortization of pre-publication costs has increased as becker&mayer is phased in. Sales and marketing expenses have increased slightly and the group has incurred higher IT costs as core systems implementations have been undertaken for the first time in over a decade. The UEL and returns-related elements of the 2017 cost increase are not expected to recur at anything like the same level in subsequent years.

Exceptional Items

These total $24.2m and comprise the following elements:

1. $17.4m of goodwill impairment. This is principally an adjustment to reflect a reduction in the value-in-use of the U.S. cash-generating unit of $17.1m. The reduced operating income result noted above reduced the carrying value both in itself and as a lower base for future growth. Further details are in Note 9.
2. $5.8m of restructuring costs actioned in 2017. Of this $5.4m is the write-down of intangible and current assets in respect of six closed imprints.
3. $0.6m are the costs related to the implementation of a security package for the group's lenders.
4. $0.4m are costs associated with the unsolicited offer for the group and an unrelated acquisition which did not complete.

Discontinued Operations

The disposal of the Group's 75% interest in Regent Publishing Services Limited was completed on 31 March 2017; the disposal of Books & Gifts Direct Pty Limited (BGD Australia) on 31 March 2017; and the disposal of Books & Gifts Direct Limited (BGD New Zealand) on 7 July 2017.

The results from discontinued operations include the trading results of Regent Publishing Services and BGD Australia to 31 March 2017 and BGD New Zealand to 7 July 2017 and the gains or losses on the respective disposals.

Further details are included in note 8.

Earnings

The adjusted basic earnings per share for the Group's continuing operations of 18.3c shows an annual decrease of 63% on the comparative figure for 2016 of 49.8c and reflects the decrease in the pre-exceptional profit before tax.

Dividend

The Directors are not recommending a final dividend for the year, bringing the total dividend for the year to nil per share (2016: 15.0c per share).

Balance Sheet

Goodwill has been reduced from $36.1m at 31 December 2016 to $19.3m due principally to the impairment charges noted in 'Exceptional Items' above.

The intangible asset for pre-publication costs has reduced from $61.1m in 2016 to $60.3m. The key movements comprise $35.6m of additions, $32.2m of amortisation, and $4.9m of impairments in respect of six imprints closed in 2017. These closure costs have been treated as exceptional items.

Inventory at $22.6m is down from $24.0m in 2016. This has been closely managed during 2017.

Accounts Receivable at $43.1m is up $0.8m on the prior year.

Accounts Payable at $46.5m is $3.2m higher than 2016.

Other payables have decreased by $4.0m since 2016 which includes the settlement within 2017 of $7.0m of deferred consideration liabilities, principally related to the acquisition of becker&mayer and Harvard Common Press in 2016.

Finance costs of $3.3m (2016: $3.1m) represent the interest costs on the Group's borrowings together with the amortisation of the debt issuance costs. The increase in net finance costs reflects a slightly higher average gross debt in 2017 compared to 2016 and an increase in the interest margin.

The tax credit for the year of $1.5m (2016: charge of $3.8m) arises on the loss before tax. The effective tax rate for the Group is 7.0% (2016: 28.8%). A significant proportion of the Group's taxable profit arises in the US where the federal tax rate was 34% in 2017. More information is in note 5.

Cash Flow

Free cash flow (see table below) was $7.7m in 2017 which represents an increase of $4.1m compared to 2016 ($3.6m). The main reasons for the increase in 2017 over 2016 were an improvement in working capital movements of $12.1m and a reduction in pre-publication costs of $1.6m, which were offset by a decrease in the operating profit before amortisation of acquired intangibles and exceptional items in 2017 compared to 2016 of $9.8m.

Free cash flow ($m)	2017	2016
Net cash from operating activities	44.6	42.3
Investment in pre-publication costs	(35.6)	(37.2)
Purchases of property, plant and equipment	(1.1)	(1.5)
Purchase of software	(0.2)	-
Free cash flow	7.7	3.6

Going Concern

The Board has assessed the Group's ability to operate as a going concern based on a financial model which was prepared as part of the process of considering and approving the 2018 budget. The Group engaged Pragma Consulting to perform a review of the market over a similar timeframe. The financial model and the underlying assumptions have been reviewed by a firm of independent consultants, against the background of this market review.

Supported by the findings of both the Pragma and the other independent consulting project, the Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2020, which comprise a detailed cash forecast for the year ending 31 December 2018, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2019 and 2020, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period using a range of downside scenarios. The scenarios tested include:

- A reduction in revenue for the second half of 2018.
- A reduction in revenue for full year 2019.
- 10% of receivables collections are delayed by one quarter at the projected period with least headroom.

If these scenarios were to materialise the Group would still satisfy the banking covenants in its facility agreement as recently amended. We also have a range of options that enable us to maintain our financial strength including reduction in pre-publication costs, reduction in capital expenditure and managing debt.

The level of profitability of the Group reduced significantly in 2017. This has inevitably put more pressure on the banking covenants and the ability of the group to service its debts. The Directors are in discussion with the loan facility providers to mitigate the risk and the following steps have either already been implemented or are in progress:

- A standard security package was put in place in December 2017 as indicated in the group's November trading update.
- Spot amendments to individual covenants have been put in place as required.
- Further amendments for each of the loan covenants, to increase the headroom available during 2018 and early 2019, have been agreed, along with additional oversight and reporting arrangements.

As we indicated last 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 were inhibiting our ability to grow. The Board's decision not to pay a dividend in respect of 2017, its ongoing detailed review of creative investment, and its stated intention to look at all options to strengthen the balance sheet, are major initiatives which are expected to support future growth in revenue and margins.

The Board will keep all stakeholders updated with developments of our thinking.

Based on our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2020.

For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

Change in Financial Year-End

The financial year-end date of the Company will be changed from 31 December to 31 March. Accordingly, the next financial year-end date of the Company will be 31 March 2019 and 2018/19 will be a 15-month period. The Group will still report Interim results to 30 June 2018 and 31 December 2018.

The proposed change will better align with the operational needs of a seasonal business such as Quarto's.

It will enable the business to be fully focused on delivering sales targets in the critical calendar Q4 sales period without a budget process at the same time. It will allow year-end and budgeting reviews to be based on a known fall season out-turn. Interims will be issued with a better understanding of the upcoming fall season. It will also result in a more evenly balanced spread of revenues and profits between the two fiscal half-years and so aid understanding of the group's performance.

The Board of Directors are satisfied that this change will be beneficial for the group and the users of its financial statements.

The Company will hold its next Annual General Meeting for the financial period from 1 January 2018 to 31 March 2019 before 31 August 2019.

The Group's primary focus for 2018 will be on strengthening the balance sheet, supporting a steady recovery in margins, with some organic growth in Children's, while continuing remedial action in the Adults portfolio, with a backdrop of changing US and UK retail and flat Foreign Language markets with a re-balance of territories.

Marcus E. Leaver
Chief Executive

back to top

Condensed Consolidated Income Statement
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Continuing operations			
Revenue	2	152,512	154,610
Cost of sales		(109,848)	(103,916)
Gross profit		42,664	50,694
Distribution costs		(7,549)	(6,870)
Administrative expenses		(27,922)	(26,835)
Operating profit before amortisation of acquired intangibles and exceptional items		7,193	16,989
Amortisation of acquired intangibles		(840)	(654)
Exceptional items	3	(24,235)	(191)
Operating (loss)/profit	2	(17,882)	16,144
Finance income		25	-
Finance costs	4	(3,325)	(3,109)
(Loss)/profit before tax		(21,182)	13,035

Tax credit/(charge)	5	1,480	(3,756)
(Loss)/profit for the year from continuing operations		(19,702)	9,279
Discontinued operations			
Profit/(loss) for the year from discontinued operations	8	1,163	(14,556)
Loss for the year		(18,539)	(5,277)
Attributable to:			
Owners of the parent		(18,513)	(5,697)
Non-controlling interests		(26)	420
		(18,539)	(5,277)
(Loss)/earnings per share (cents)			
From continuing operations			
Basic	6	(96.4)	46.4
Diluted	6	(96.4)	45.4
Adjusted basic	6	18.3	49.8
Adjusted diluted	6	17.8	48.7
From discontinued operations			
Basic	6	5.8	(74.9)
Diluted	6	5.7	(74.9)
From continuing and discontinued operations			
Basic	6	(90.6)	(28.5)
Diluted	6	(90.6)	(28.5)

The results of the discontinued businesses of BGD and Regent have been classified separately in the consolidated income statement for the current and previous years.

Condensed Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

back to top

	Note	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Loss for the year		(18,539)	(5,277)
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences		35	706
Reclassification on disposal of business		3,540	-
Cash flow hedge: profits/(losses) arising during the year		25	150
Tax relating to items that may be reclassified to profit or loss		471	(1,609)
Total other comprehensive income		4,071	(753)
Total comprehensive expense for the year		(14,468)	(6,030)
Attributable to:			
Owners of the parent		(14,442)	(6,450)
Non-controlling interests		(26)	420
		(14,468)	(6,030)

back to top

Condensed Consolidated Balance Sheet
At 31 December 2017

	Note	31 December 2017 $'000	31 December 2016 $'000
Non-current assets			
Goodwill	9	19,286	36,144
Other intangible assets		3,516	4,351
Property, plant and equipment		2,129	1,857
Intangible assets: Pre-publication costs	10	60,278	61,133
Deferred tax assets		3,901	2,022
Total non-current assets		89,110	105,507

Current assets		
Inventories	22,637	24,006
Trade and other receivables	53,460	54,162
Derivative financial instruments	205	141
Cash and cash equivalents	17,946	18,824
Total current assets	94,248	97,133
Total assets	183,358	202,640
Current liabilities		
Short term borrowings	(5,000)	(5,000)
Derivative financial instruments	-	(94)
Trade and other payables	(60,796)	(59,718)
Tax payable	(5,243)	(4,060)
Total current liabilities	(71,039)	(68,872)
Non-current liabilities		
Medium and long term borrowings	(76,907)	(75,748)
Deferred tax liabilities	(8,520)	(10,502)
Tax payable	(1,116)	-
Other payables	(1,673)	(3,407)
Total non-current liabilities	(88,216)	(89,657)
Total liabilities	(159,255)	(158,529)
Net assets	24,103	44,111
Equity		
Share capital	2,045	2,045
Paid in surplus	33,764	33,764
Retained earnings and other reserves	(11,706)	3,410
Equity attributable to owners of the parent	24,103	39,219

Non-controlling interests	-	4,892
Total equity	**24,103**	**44,111**

back to top

Condensed Consolidated Statement of Changes in Equity
For the year ended 31 December 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 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: losses 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/ (expense) for the year	-	-	150	(913)	-	(5,697)	**(6,460)**	430	**(6,030)**
Sale of shares	-	-	-	-	69	-	**69**	-	**69**
Dividends to shareholders	-	-	-		-	(2,902)	**(2,902)**	-	**(2,902)**
Dividend paid to non-controlling interests	-	-		-	-	-	**-**	(697)	**(697)**
Vesting of options			-		565	(594)	**(29)**		**(29)**
	-	-	-	-	-	256	**256**	-	**256**

Share based payment charge									
Balance at 1 January 2017	2,045	33,764	140	(8,850)	-	12,120	**39,219**	4,892	**44,111**
Loss for the year	-	-	-	-	-	(18,513)	**(18,513)**	(26)	**(18,539)**
Foreign exchange translation differences	-	-	-	46	-	-	**46**	(11)	**35**
Reclassification to income statement on disposal of business	-	-	-	3,540	-	-	**3,540**	-	**3,540**
Cash flow hedge: profits arising during the year	-	-	25	-	-	-	**25**	-	**25**
Tax relating to items that may be reclassified to profit or loss	-	-	-	471	-	-	**471**	-	**471**
Total comprehensive income/ (expense) for the year	-	-	25	4,057	-	(18,513)	**(14,431)**	(37)	**(14,468)**
Dividend in-specie paid to non-controlling interests	-	-	-	-	-	-	**-**	(3,744)	**(3,744)**
Adjustment arising from change in non-controlling interests						1,111	**1,111**	(1,111)	**-**
Dividends to shareholders	-	-	-	-	-	(2,018)	**(2,018)**	-	**(2,018)**
Share based payment charge	-	-	-	-	-	222	**222**	-	**222**
Balance at 31 December 2017	**2,045**	**33,764**	**165**	**(4,793)**	**-**	**(7,078)**	**24,103**	**-**	**24,103**

Condensed Consolidated Cash Flow Statement
For the year ended 31 December 2017

back to top

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Loss for the year	(18,539)	(5,277)
Adjustments for:		
Net finance costs	3,300	2,945
Depreciation of property, plant and equipment	817	1,080
Software amortisation	315	
Tax (credit)/expense	(1,480)	3,991
Exceptional impairment of BGD assets	-	14,203
Impairment of goodwill	17,418	-
Impairment of pre-publication costs	4,868	-
Share based payment charge	222	256
Amortisation of acquired intangibles	841	705
Amortisation and amounts written off pre-publication costs	32,212	30,540
Movement in fair value of derivatives	(130)	120
Gain on divestment of business	(2,541)	-
Operating cash flows before movements in working capital	37,303	48,563
Decrease in inventories	1,281	1,270
(Increase)/decrease in receivables	(784)	1,628
Increase/(decrease) in payables	6,822	(7,715)
Cash generated by operations	44,622	43,746
Income taxes paid	-	(1,436)
Net cash from operating activities	44,622	42,310
Investing activities		
Interest received	25	164
Investment in pre-publication costs	(35,551)	(37,165)
Purchases of property, plant and equipment	(1,063)	(1,562)

Purchase of software	(266)	-
Disposal of subsidiaries	4,588	-
Acquisition of businesses	(7,041)	(3,718)
Net cash used in investing activities	(39,308)	(42,281)
Financing activities		
Dividends paid	(2,018)	(2,902)
Interest payments	(2,935)	(2,725)
Drawdown of revolving credit facility	6,600	5,583
Repayment of term loan and revolving credit facility	(8,271)	(5,000)
Dividends paid to non-controlling interests	-	(697)
Net cash used in financing activities	(6,624)	(5,741)
Net (decrease) in cash and cash equivalents	(1,310)	(5,712)
Cash and cash equivalents at beginning of year	18,824	25,059
Foreign currency exchange differences on cash and cash equivalents	432	(523)
Cash and cash equivalents at end of year	17,946	18,824

back to top

Notes

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