17 September 2018

Half-Year Results for the Six Months Ended 30 June 2018

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 2018.

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

Results ($m)	H1 2018	H1 2017
Group Revenue	56.2	50.2
Adjusted[2] Group Operating Loss	(4.7)	(7.2)
Group Operating Loss	(7.0)	(7.6)
Adjusted[2] Loss before Tax	(6.6)	(8.7)
Loss before Tax	(8.9)	(9.2)
Loss after Tax	(6.7)	(5.2)
Net Debt	73.2	75.8

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

Financial Highlights

- Encouraging trading performance, ahead of the prior year
- Revenue up 12%
- Improved gross profit margin of 50.1% (2017: 48.2%)
- Cost-out programme initiated post period end, and significant progress made with our banking syndicate to extend facilities until August 2020

Operational Highlights

- Solid trading performance in a challenging retail environment in both domestic markets
- US publishing lists revenue up 9%, compared to 2017
- UK publishing lists revenue up 17%, compared to 2017, driven by a strong contribution from children's imprints

Commenting on the results, Chief Executive, CK Lau said:

"This is an encouraging set of results. We have achieved good year-on-year growth and we are well placed to deliver a solid performance for the full year.

The Group has had to adjust to various transitions in the management of the Company during the first half year. Our resilient and talented staff have stepped up to the challenges we have faced and are committed to delivering on a leaner and more focused publishing programme.

The newly constituted Board are concentrating on delivering stability to the business, and the extension of the banking facilities will enable us to lay down a key building block in returning the Group to full-health."

For further information, please contact:

The Quarto Group, Inc.

CK Lau, CEO Natacha Jedzinska, Corporate Communications Manager	+44 (0)207 700 8075

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 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.350 talented people in the US, UK, Hong Kong and Australia. 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**

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Chief Executive's Statement

SUMMARY

The first six months of 2018 have been challenging as the market place continues to show softness in the book trade, both in the US and the UK. However, trading was encouraging for the first half of the year, with revenue up by 12% at $56.2m (2017: $50.2m). Our children's imprints performed particularly strongly, with revenues up 30%. Revenues from our adult imprints were also up, by 5%. The gross profit margin before amortization of pre-publication costs, was 50.1% (2017: 48.2%). The increased revenues, together with an improved gross profit margin, have resulted in a significantly lower adjusted group operating loss of $4.7m (H1 2017: loss of $7.2m), in what is our seasonally weak half year. The adjusted loss before tax was $6.6m (H1 2017: loss of $8.7m). Net debt at 30 June 2018 was $73.2m (H1 2017: $75.8m), a decrease of $2.6m over the twelve-month period.

Each of our reporting segments produced a solid trading performance. US Publishing revenues were up 9% compared to the prior year, UK publishing revenues were up 17% and Q Partners revenues were up 1%, resulting in an improvement in the Group's adjusted operating result, as shown in the table below. The US and UK publishing segments both benefited from an improved seasonal split of co-edition revenues, with a higher percentage than normal of expected full-year revenues achieved in the first half.

The book store market continues to be slow and this is likely to continue for the remainder of the year. We may also see further consolidation in the book trade and a continued pattern of more frequent smaller orders, which puts pressure on the supply chain. The Group expects that its strong autumn and holiday publishing programme, resurgent backlist and list of break-out titles will contribute to a positive year-end.

OPERATING REVIEW

Revenue ($m)	H1 2018	H1 2017
United States	34.7	32.1
United Kingdom	8.4	7.5
Rest of the World	6.8	5.4
Europe	6.3	5.2
Total Revenue	56.2	50.2

Adjusted Operating Loss ($m)	H1 2018	H1 2017
US Publishing	(0.6)	(1.7)
UK Publishing	(2.0)	(3.6)
Q Partners	(0.1)	(0.1)
Group overhead	(2.0)	(1.8)
Total adjusted operating loss	(4.7)	(7.2)

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

Continuing Publishing Operations

The Group's increase in revenue this year is a result of several factors prompted by our strong frontlist publishing programme, and backlist sales particularly from titles published in prior years. The highlights are our *Little People Big Dreams* list of titles which is now approaching 1 million copies in print and still growing. Our line of healthy cookery titles, led by our Keto cookery programme, has been very successful, with almost 600,000 copies in print. Returns, which were high last year when the colouring books fad ended, were at a more normalized level in 2018.

The revenue for our US publishing lists was up 9%, compared to the prior year, with a strong performance from our Beverly based imprints, Quarry and Fair Winds Press. In addition, Racepoint Publishing and becker&mayer! books achieved increased revenues. A strength of the US programme has been our ability to grow the specialty retailer accounts base, as the uncertainty of the book trade continues to show lower sales in our publishing categories.

The revenue for our UK publishing lists was up 17%, mainly driven by our children's category, led by Frances Lincoln Children's, which has performed well in all markets. The *Little People Big Dreams* series continues to be a major success; we are adding additional titles to the programme this autumn, and next year will be expanding the list to include inspirational male role models. Young Quarto has also performed strongly in the first half, selling well in the book trade. Although we have had a good first half in co-edition, sales to our key co-edition publishers for the second half of the year are expected to be slower. The launch of our *Build and Become* series (White Lion Publishing) has been well received and, with another four titles to come, we expect continued growth in the series.

Our international English language sales have seen a good uplift at the start of the year. We have already matched full-year sales from the prior year with a strong contribution from our Australian, Middle Eastern and Asian markets.

We expect our foreign language sales to be slightly lower than the prior year as a result of market place uncertainty. 2017 was a record year for our foreign language sales team, significantly increasing our market reach and growing the business in Asia.

Q Partners, our publishing partners and distribution business, has performed in line with the prior year's results. Sales have been slow in Brazil and the launch of Quarto Iberoamericana, our Spanish language partnership, has still to reach critical mass.

Cost-out programme

We have initiated a cost-out programme, which is designed to achieve: a right-sizing of the Group; a path to sustainable debt reduction; a focus on our core strengths; and a disciplined business model.

The process involved a thorough review of key areas of expenditure, including but not limited to, pre-publication expenditure, occupancy costs, payroll and discretionary expenditure. The benefit of the cost-out programme will not flow through immediately, as we will have to incur one-time exceptional costs, mainly in 2018, to implement the plan.

Refinancing

Significant progress has been made with our banks, to extend our facilities to August 2020. The key terms, which include a debt reduction programme, have been agreed and we expect to be able to announce details of the refinancing in the short term.

Year end

We have decided to continue the historical year-end of 31 December - the previous Board had agreed a change to 31 March. By doing this, we avoid the unnecessary time and cost of carrying out the additional work that would have been required in restating comparatives and preparing additional transitional reports.

OUTLOOK

We have produced a strong first-half performance compared to last year, and we are well placed to deliver a solid result for the full year.

The newly constituted Board are fully focused on achieving stability in the business after a period of considerable change. The extension of the banking facilities will create financial stability which is a key building block in returning the Group to full-health. This will allow us to concentrate on the production of the profitable and beautifully illustrated books for which Quarto is so well-known.

On behalf of the Board, I would like to thank all staff for their continued support and loyalty during this recent period of change and uncertainty, as well as our partners and suppliers across the world.

CK Lau
Chief Executive

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Condensed Consolidated Income Statement
For the six months ended 30 June 2018

	Note	Six months to 30 June 2018 Unaudited $'000	Six months to 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Continuing operations				
Revenue	2	56,174	50,159	152,512
Cost of sales		(44,237)	(40,914)	(109,848)
Gross profit		11,937	9,245	42,664
Distribution costs		(3,778)	(3,265)	(7,549)
Administrative expenses		(12,838)	(13,187)	(27,922)

	Note			
Operating (loss)/profit before amortisation of acquired intangibles and exceptional items		**(4,679)**	**(7,207)**	**7,193**
Amortisation of acquired intangibles		(428)	(418)	(840)
Exceptional items	3	(1,891)	-	(24,235)
Operating loss	**2**	**(6,998)**	**(7,625)**	**(17,882)**
Finance income		-	-	25
Finance costs		(1,902)	(1,528)	(3,325)
Loss before tax		**(8,900)**	**(9,153)**	**(21,182)**
Tax credit	4	2,225	2,655	1,480
Loss for the period from continuing operations		**(6,675)**	**(6,498)**	**(19,702)**
Discontinued operations				
Profit for the period from discontinued operations	5	-	1,243	1,163
Loss for the period		**(6,675)**	**(5,255)**	**(18,539)**
Attributable to:				
Owners of the parent		(6,675)	(5,229)	(18,513)
Non-controlling interests		-	(26)	(26)
		(6,675)	**(5,255)**	**(18,539)**

Loss per share (cents)				
From continuing operations				
Basic	6	(35.5)	(31.8)	(96.4)
Diluted	6	(35.5)	(31.8)	(96.4)
From continuing and discontinued operations				
Basic	6	(35.5)	(25.6)	(90.6)
Diluted	6	(35.5)	(25.8)	(90.6)

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Condensed Consolidated Income Statement
For the six months ended 30 June 2018

	Six months to 30 June 2018 Unaudited **$'000**	Six months to 30 June 2017 Unaudited **$'000**	Year ended 31 December 2017 Audited **$'000**
Loss for the period	(6,675)	(5,255)	(18,539)
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences	(691)	267	35
Cash flow hedge: Profits arising during the period	26	30	25
Reclassification to income statement on disposal of businesses	-	3,540	3,540
Tax relating to items that may be reclassified to profit or loss	-	-	471
	(7,340)	(1,418)	(14,468)

Total comprehensive expense for the period			

Attributable to:			
Owners of the parent	(7,340)	(1,392)	(14,442)
Non-controlling interests	-	(26)	(26)
	(7,340)	(1,418)	(14,468)

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Condensed Consolidated Balance Sheet At 30 June 2018

	Note	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Non-current assets				
Goodwill		19,144	36,468	19,286
Other intangible assets		3,025	3,816	3,516
Property, plant and equipment		1,870	2,296	2,129
Intangible assets: Pre-publication costs		60,373	63,946	60,278
Deferred tax assets		3,890	2,824	3,901
Total non-current assets		88,302	109,350	89,110
Current assets				
Inventories		24,574	21,159	22,637
Trade and other receivables		36,935	41,005	53,460
Derivative financial instruments		191	179	205
Cash and cash equivalents	8	5,047	6,800	17,946
Assets held for sale		-	949	-
Total current assets		66,747	70,092	94,248

Total assets		155,049	179,442	183,358
Current liabilities				
Short term borrowings	8	(78,294)	(5,000)	(5,000)
Derivative financial instruments		-	(58)	-
Trade and other payables		(47,853)	(40,233)	(60,796)
Tax payable		(1,268)	(1,695)	(5,243)
Liabilities held for sale		-	(198)	-
Total current liabilities		(127,415)	(47,184)	(71,039)
Non-current liabilities				
Medium and long term borrowings	8	-	(77,720)	(76,907)
Deferred tax liabilities		(8,397)	(11,093)	(8,520)
Tax payable		(1,016)	-	(1,116)
Other payables		(1,524)	(6,358)	(1,673)
Total non-current liabilities		(10,937)	(95,171)	(88,216)
Total liabilities		(138,352)	(142,355)	(159,255)
Net assets		16,697	37,087	24,103
Equity				
Share capital		2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained profit and other reserves		(19,112)	1,278	(11,706)
Total equity		16,697	37,087	24,103

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Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2018

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Retained earnings	Equity attributable	Total

						to owners of the parent	Non-controlling interests	
	$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 for the period	-	-	-	-	(5,229)	**(5,229)**	(26)	**(5,255)**
Foreign exchange translation differences	-	-	-	267	-	**267**	-	**267**
Reclassification to income statement on disposal of businesses	-	-	-	3,540	-	**3,540**	-	**3,540**
Cash flow hedge: profits arising during the period	-	-	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 2017	2,045	33,764	170	(5,043)	6,151	37,087	-	37,087
Balance at 1 January 2018	2,045	33,764	165	(4,793)	(7,078)	24,103	-	24,103

Loss for the period	-	-	-	-	(6,675)	(6,675)	-	(6,675)
Foreign exchange translation differences	-	-	-	(691)	-	(691)	-	(691)
Cash flow hedge: profits arising during the period	-	-	26	-	-	26	-	26
Tax relating to items that may be reclassified to profit or loss	-	-	-	-	-	-	-	-
Total comprehensive (expense)/income for the period	-	-	26	(691)	(6,675)	(7,340)	-	(7,340)
Dividends to shareholders	-	-	-	-	-	-	-	-
Share based payment credit	-	-	-	-	(66)	(66)	-	(66)
Balance at 30 June 2018	2,045	33,764	191	(5,484)	(13,819)	16,697	-	16,697

Condensed Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total**
	$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 for the year	-	-	-	-	(18,513)	(18,513)	(26)	(18,539)
Foreign exchange translation differences	-	-	-	46	-	46	(11)	35
	-	-	-	3,540	-	3,540	-	3,540

Reclassification to income statement on disposal of businesses								
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 for the year	-	-	25	4,057	(18,513)	(14,431)	(37)	(14,468)
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	-	-	-	-	1,111	1,111	(1,111)	-
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

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Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2018

	Six months to 30 June 2018 Unaudited $'000	Six months to 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000

Loss for the period	(6,675)	(5,255)	(18,539)
Adjustments for:			
Net finance costs	1,902	1,528	3,300
Depreciation of property, plant and equipment	357	381	817
Software amortisation	137	156	315
Tax credit	(2,225)	(2,655)	(1,480)
Impairment of goodwill	-	-	17,418
Impairment of pre-publication costs	-	-	4,868
Share based payments	(66)	156	222
Amortisation of acquired intangibles	428	418	841
Gain on divestment of businesses	-	(2,538)	(2,541)
Amortisation and amounts written off pre-publication costs	16,206	14,921	32,212
Movement in fair value of derivatives	(26)	(31)	(130)
Operating cash flows before movements in working capital	10,038	7,081	37,303
(Increase)/decrease in inventories	(2,030)	2,410	1,281
Decrease/(increase) in receivables	16,314	10,923	(784)
(Decrease)/increase in payables	(13,086)	(11,296)	6,822
Cash generated by operations	11,236	9,118	44,622
Income taxes paid	(1,865)	-	-
Net cash from operating activities	9,371	9,118	44,622

Investing activities			
Interest received	-	-	25
Investment in pre-publication costs	(16,886)	(16,222)	(35,551)
Purchases of property, plant and equipment	(121)	(639)	(1,063)
Purchase of software	(82)	(212)	(266)
Disposal of subsidiaries	-	3,650	4,588
Acquisition of publishing assets	-	(4,041)	(7,041)
Net cash used in investing activities	(17,089)	(17,464)	(39,308)
Financing activities			
Dividends paid	-	(2,018)	(2,018)
Interest payments	(1,651)	(1,322)	(2,935)
External loans repaid	(8,633)	(5,432)	(8,271)
External loans drawn	5,000	5,000	6,600
Net cash used in financing activities	(5,284)	(3,772)	(6,624)
Net decrease in cash and cash equivalents	(13,002)	(12,118)	(1,310)
Cash and cash equivalents at beginning of period	17,946	18,824	18,824
Foreign currency exchange differences on cash and cash equivalents	103	94	432
Cash and cash equivalents at end of period	5,047	6,800	17,946

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Notes to the condensed financial statements

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