

16 August 2019

Half-Year Results for the Six Months Ended 30 June 2019

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 2019.

Highlights

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Results (\$m)	H1 2019	H1 2018
Group Revenue	56.4	56.2
Adjusted ¹ Group Operating Loss	(1.2)	(4.7)
Group Operating Loss	(1.6)	(7.0)
Adjusted ¹ Loss before Tax	(4.0)	(6.6)
Loss before Tax	(4.4)	(8.9)
Loss after Tax	(3.6)	(6.7)
Net Debt	65.0	73.2

1. Adjusted measures are stated before amortisation of acquired intangibles and exceptional items.

Headlines

- Revenue marginally up at \$56.4m
- Adjusted operating loss down 75% at \$1.2m
- Net debt reduced by 11% to \$65.0m
- Strong contribution from children's imprints with revenues up 14%

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

"This is an encouraging set of results following a year of significant change for the Group. Revenue is slightly up year on year, while both operating loss and net debt have reduced significantly during the period in what is seasonally our weak half of the year.

We are now focused on the critical second half as we expect the trading environment to be particularly challenging, especially on the Adult co-edition side both in English and foreign language. That said, we have the right plans in place to capture all possible opportunities and ensure a satisfactory year-end.

The Board remains focused on returning the Group to full health, reducing debt and defining growth strategies for 2020 and beyond."

The Legal Entity Identifier of the Company is 549300BJ2WPX3QUATW58.

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The Quarto Group, Inc.

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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](https://twitter.com/TheQuartoGroup).

CHIEF EXECUTIVE'S STATEMENT

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SUMMARY

Trading was encouraging for the first six months of 2019. Revenue is slightly up year on year at \$56.4m (H1 2018: \$56.2m) with a smaller publishing programme.

Children's imprints performed particularly well, with revenues up 14%. Revenues from Adult imprints were down 6% as the market remains challenging, particularly on the co-edition side where we are still seeing consolidation of our key publishing customers. The gross profit margin was in line with prior year at 21.5% (H1 2018: 21.3%).

The increased revenues, combined with substantial benefits from the cost out program implemented in 2018, have resulted in a significantly lower adjusted group operating loss of \$1.2m (H1 2018: loss of \$4.7m) in what is our seasonally weak half year. The adjusted loss before tax was \$4.0m (H1 2018: loss of \$6.6m).

Both reporting segments improved their trading performance year on year, resulting in a significant improvement in the Group's adjusted operating result, as shown in the table below.

Net debt at 30 June 2019 was \$65.0m (H1 2018: \$73.2m), a decrease of \$8.2m over the twelve-month period.

The book trade market remains soft, while in the co-edition market, further consolidation is impacting both English and foreign language sales, especially on the Adult segment. As a result, the Group expects the trading environment in the second half to be more challenging than in prior years.

OPERATING REVIEW

Revenue (\$m)	H1 2019	H1 2018
United States	36.7	33.8
United Kingdom	7.6	8.1
Europe	5.7	6.3
Rest of the World	6.4	8.0

Total Revenue	56.4	56.2
Adjusted Operating Loss (\$m)	H1 2019	H1 2018
US Publishing	1.0	(0.7)
UK Publishing	(1.5)	(2.0)
Group overhead	(0.7)	(2.0)
Total adjusted operating loss	(1.2)	(4.7)

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

With fewer titles published in the period than the prior year, as a result of the cost out programme initiated in the second half of 2018, the Group's revenue increased slightly year on year, led by the strong performance of our children's imprints.

UK-based Frances Lincoln Children's Books was particularly successful. Its Little People, Big Dreams series remains a highlight, with over 1.3 million copies sold in the English language to date. We have expanded the list to include inspirational male role models and these titles have done well so far. Young Quarto also performed strongly, selling well in the book trade, although sales to our key co-edition publishers have been slower than the prior year. In the US, our SmartLab Toys business also performed well.

Revenues from Adult imprints were down and that market remains more challenging. In the US, our Beverly-based Adult imprints, especially Fair Winds Press and Harvard Common Press, continue to perform strongly led by our successful line of Keto cookery titles.

Co-editions sales have been slower than the prior year both in English and foreign language and, with the continued consolidation of key publishers in the market, we expect them to remain so in the second half. We continue to look at new opportunities in custom publishing to grow our customer base.

The challenging Adult co-edition market has impacted Foreign language sales, which have been slower than prior year in the first half and are expected to remain down year on year for the full year.

International English language sales are down year on year. This is mostly due to order timings and they are expected to remain comparable for the full year.

Group overheads were reduced by 65% due to the cost out program initiated in the second half of 2018. The benefits of these savings will much lower in the second half of the year.

OUTLOOK

The market remains soft in both the US and the UK and, considering the weaker performance of Adult co-editions in both English and foreign language, as well as the uncertainty surrounding Brexit and US trade tariffs, we expect the trading environment in the second half to be particularly challenging.

That said, the Group has the right plans in place to capture all possible opportunities and deliver a satisfactory end to the year. The Board remains focused on returning the Group to full health, reducing debt and defining growth strategies for 2020 and beyond.

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

C.K. Lau
Chief Executive Officer

	Note	Six months to 30 June 2019 Unaudited \$'000	Six months to 30 June 2018 Unaudited \$'000	Year ended 31 December 2018 Audited \$'000
Continuing operations				
Revenue	3	56,390	56,174	149,292
Cost of sales		(44,282)	(44,237)	(107,195)
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Gross profit		12,108	11,937	42,097
Distribution costs		(3,525)	(3,778)	(7,919)
Administrative expenses		(9,773)	(12,838)	(23,873)
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Operating (loss)/profit before amortisation of acquired intangibles and exceptional items		(1,190)	(4,679)	10,305
Amortisation of acquired intangibles		(408)	(428)	(850)
Exceptional items	4	-	(1,891)	(5,152)
<hr/>				
Operating (loss)/profit	3	(1,598)	(6,998)	4,303
Finance income		9	-	21
Finance costs		(2,792)	(1,902)	(4,381)
<hr/>				
Loss before tax		(4,381)	(8,900)	(57)
Taxation	5	1,095	2,225	(495)
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Loss for the period		(3,286)	(6,675)	(552)
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Attributable to:				
Owners of the parent		(3,286)	(6,675)	(552)
<hr/>				

(Loss)/earnings per share (cents)

From continuing operations				
Basic	6	(16.1)	(32.6)	(2.7)
Diluted	6	(16.1)	(32.6)	(2.7)
Adjusted basic	6	(14.6)	(24.1)	23.2
Adjusted diluted	6	(14.6)	(24.1)	23.0

Condensed Consolidated Statement of Comprehensive Income For the six months ended 30 June 2019

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	Six months to 30 June 2019 Unaudited \$'000	Six months to 30 June 2018 Unaudited \$'000	Year ended 31 December 2018 Audited \$'000
Loss for the period	(3,286)	(6,675)	(552)
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences	(119)	(691)	(1,950)
Cash flow hedge: (losses)/profits arising during the period	(85)	26	(60)
Tax relating to items that may be reclassified to profit or loss	-	-	(246)
Total comprehensive expense for the period	(3,490)	(7,340)	(2,808)
Attributable to:			
Owners of the parent	(3,490)	(7,340)	(2,808)

Condensed Consolidated Balance Sheet At 30 June 2019

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	Note	30 June 2019 Unaudited \$'000	30 June 2018 Unaudited <i>Restated</i> \$'000	31 December 2018 Audited \$'000
Non-current assets				
Goodwill		18,907	19,144	18,954
Other intangible assets		1,809	3,025	2,368

Property, plant and equipment	2	11,112	1,870	1,552
Intangible assets: Pre-publication costs		54,110	60,373	56,741
Deferred tax assets		3,900	3,890	3,901
Total non-current assets		89,838	88,302	83,516
Current assets				
Inventories		20,561	24,574	22,324
Trade and other receivables		42,084	41,699	54,476
Derivative financial instruments		20	191	105
Cash and cash equivalents	7	7,694	5,047	15,384
Total current assets		70,359	71,511	92,289
Total assets		160,197	159,813	175,805
Current liabilities				
Short term borrowings	7	(7,500)	(78,294)	(5,000)
Trade and other payables	2	(49,328)	(52,617)	(64,917)
Tax payable		(2,960)	(1,268)	(4,167)
Total current liabilities		(59,788)	(132,179)	(74,084)
Non-current liabilities				
Medium and long term borrowings	7	(65,156)	-	(70,752)
Deferred tax liabilities		(8,445)	(8,397)	(8,753)
Tax payable		(541)	(1,016)	(544)
Other payables	2	(8,579)	(1,524)	(554)
Total non-current liabilities		(82,721)	(10,937)	(80,603)
Total liabilities		(142,509)	(143,116)	(154,687)
Net assets		17,688	16,697	21,118
Equity				
Share capital		2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained profit and other reserves		(18,121)	(19,112)	(14,691)

Total equity					17,688	16,697	21,118
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Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2019

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	Share capital \$000	Paid in surplus \$000	Hedging reserve \$000	Translation reserve \$000	Retained earnings \$000	Equity attributable to owners of the parent \$000	Non- controlling interests \$000	Total \$000
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
Total comprehensive (expense)/income for the period	-	-	26	(691)	(6,675)	(7,340)	-	(7,340)
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
Balance at 1 January 2019	2,045	33,764	105	(6,989)	(7,807)	21,118	-	21,118
Loss for the period	-	-	-	-	(3,286)	(3,286)	-	(3,286)
Foreign exchange translation differences	-	-	-	(119)	-	(119)	-	(119)
Cash flow hedge: losses arising during the period	-	-	(85)	-	-	(85)	-	(85)

Total comprehensive (expense) for the period	-	-	(85)	(119)	(3,286)	(3,490)	-	(3,490)
Share based payment charge	-	-	-	-	60	60	-	60
Balance at 30 June 2019	2,045	33,764	20	(7,108)	(11,033)	17,688	-	17,688

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Condensed Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	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 2018	2,045	33,764	165	(4,793)	(7,078)	24,103	-	24,103
Loss for the year	-	-	-	-	(552)	(552)	-	(552)
Foreign exchange translation differences	-	-	-	(1,950)	-	(1,950)	-	(1,950)
Cash flow hedge: losses arising during the year	-	-	(60)	-	-	(60)	-	(60)
Tax relating to items that may be reclassified to profit or loss	-	-	-	(246)	-	(246)	-	(246)
Total comprehensive income for the year	-	-	(60)	(2,196)	(552)	(2,808)	-	(2,808)
Share based payment credit	-	-	-	-	(177)	(177)	-	(177)
	2,045	33,764	105	(6,989)	(7,807)	21,118	-	21,118

Balance at 31
December 2018

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Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2019

	Note	Six months to 30 June 2019 Unaudited \$'000	Six months to 30 June 2018 Unaudited <i>Restated</i> \$'000	Year ended 31 December 2018 Audited \$'000
Loss for the period		(3,286)	(6,675)	(552)
Adjustments for:				
Net finance costs		2,783	1,902	4,360
Depreciation of property, plant and equipment	2	1,089	357	693
Software amortisation		151	137	298
Tax (credit)/charge		(1,095)	(2,225)	495
Impairment of pre-publication costs		-	-	501
Share based payments		60	(66)	(177)
Amortisation and amounts written off acquired intangibles		408	428	910
Amortisation and amounts written off pre-publication costs		15,034	16,206	31,426
Movement in fair value of derivatives		-	(26)	-
Operating cash flows before movements in working capital		15,144	10,038	37,954
Decrease/(increase) in inventories		1,734	(2,030)	21
Decrease/(increase) in receivables		12,317	11,550	(2,280)
(Decrease)/increase in payables		(16,196)	(8,322)	4,639
Cash generated by operations		12,999	11,236	40,334
Income taxes paid		(385)	(1,865)	(1,962)
Net cash from operating activities		12,614	9,371	38,372

Investing activities

Interest received	9	-	21
Investment in pre-publication costs	(12,935)	(16,886)	(29,744)
Purchases of property, plant and equipment	(75)	(121)	(169)
Purchase of software	-	(82)	(77)
Acquisition of subsidiaries	-	-	(1,887)
<hr/>			
Net cash used in investing activities	(13,001)	(17,089)	(31,856)
Financing activities			
Interest payments	(2,341)	(1,651)	(2,980)
External loans repaid	(6,923)	(8,633)	(24,238)
External loans drawn	1,997	5,000	18,457
<hr/>			
Net cash used in financing activities	(7,267)	(5,284)	(8,761)
Net decrease in cash and cash equivalents	(7,654)	(13,002)	(2,245)
Cash and cash equivalents at beginning of period	15,384	17,946	17,946
Foreign currency exchange differences on cash and cash equivalents	(36)	103	(317)
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Cash and cash equivalents at end of period	7,694	5,047	15,384
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Notes to the condensed financial statements

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The notes are available in the printable pdf of the results. To download it, please [click here](#).