



NS Half-year/Interim Report

HALF-YEAR RESULTS

QUARTO GROUP INCORPORATED

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The Quarto Group, Inc. (the "Company", "Quarto", "Group")

Half-Year Results for the Six Months Ended 30 June 2023

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 2023.

Results (\$m)	H1 2023	H1 2022
Group Revenue	52.0	61.9
Adjusted ¹ Group Operating Profit	3.1	6.7
Group Operating Profit	3.1	7.2
Adjusted ¹ Profit before Tax	3.1	6.1
Profit before Tax	2.6	6.6
Profit after Tax	1.8	4.7
Net Cash / (Debt)	9.1	(5.6)

1. Adjusted measures are stated exceptional items.

Headlines

- Revenue down 16% at \$52m against 2022, partly due to Quarto Distribution Services & Smart Lab being discontinued, with core revenue \$51m, down 10% year on year.
- Operating profit of \$3.1m down from \$7.2m in 2022, driven by the reduction in revenue.
- Strong cash generation has continued to feature, with \$14.7 million generated over the last 12 months to June 2023. Net cash position was \$9.1m against a net debt position of \$5.6m (June 2022)

Chief Executive, Alison Goff commented on the half year position:

"Following the economic challenges faced towards the end of 2022 and into 2023, this is a steady set of results following on from the growth in 2022. Whilst revenue and profits were down year on year, the results achieved are in line with our expectations for the seasonally weaker first half of the year.

Quarto UK, whilst sales experienced a decline of 6% year on year from \$27.2m (2022) to \$25.5m (2023), this is still 3% ahead of 2021. With the decline in revenue, operating profits reduced from \$3.1m in 2022 to \$2.4m in 2023, although this is still a significant improvement on 2021 at \$1m. Softness across all areas of the business contributed to this decline, as consumer demand reduced and our business to business sales slowed as customers managed their inventory.

*Bestsellers within the period include **The King**, a new title for 2023 in our very successful **Little People Big Dreams** series and **London: A Guide for Curious Wanderers** also a new title in 2023. We were also shortlisted for numerous prestigious awards including **Flooded** by Mariajo Ilustrajo (Klaus Flugge Prize) and **Rescuing Titanic***

(Yoto Carnegie award).

Quarto US has also seen a decline in revenue down 23% from \$34.7m to \$26.5m. Excluding the discontinued Quarto Distribution Services and Smart Lab core trading is down 12%, with trade sales and custom down 7% and 44% respectively. The reduction in custom sales is purely timing of orders and we expect this to recover during the second half of 2023. Operating profit reduced by 69% to \$1.3m from \$4.1m, with the decline in sales.

*We continue to see **Beautiful Boards** perform strongly, with **Nascar 75 years** published in 2023 also performing well.*

We are now focused on the second half of the year, which will be a significant period for Quarto as we expect the trading environment to continue to be challenging. However, I am confident with inflation past its recent peak and supply chain issues now easing, we have the right plans in place to capture all potential opportunities. We are confident that these plans will enable us to navigate through these uncertain times.

The Board remains focused on ensuring we keep costs under control, drive sales, and develop further growth strategies for the remainder of 2023, 2024 and beyond."

- ENDS -

The Legal Identifier of the Company is 549300BJ2WPX3QUATW58.

For further information, please contact:

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Daniel Logan, Group Finance Director
Michael Clarke, Company Secretary

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.305 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

SUMMARY

Following the growth in sales in the first half of 2022 compared to 2021, the revenue in first half of 2023 declined by 16% year on year at \$52m, with core revenue, excluding Quarto Distribution Services and Smart Lab, down 10% at \$51m. Revenue increased year on year in 2022 by 9% (H1 2021: \$56.9m, Core revenue \$51.5m).

Whilst sales declined due to the disposal of Smart Lab and the scaling back of Quarto Distribution Services, gross profit margin was impacted by only 1.2% to 35.2%, with prior year at 36.4%.

The decline in revenue resulted in an adjusted group operating profit of \$3.1m (H1 2022: \$6.7m). The adjusted profit before tax was \$2.6m (H1 2022: \$6.1m).

With both US and UK reporting segments showing revenue declines year on year, this resulted in the Group's adjusted operating results also showing a reduction, as shown in the table below.

June 2023, was a significant moment, as Quarto had net cash of \$9.1m, compared with net debt of \$5.6m in H1 2022, with cash generation of \$14.7m over the twelve-month period and \$8.5m in the last 6 months (See note 7). This strong cash generation has been driven by strong trading in 2022, dynamic inventory management, tight cost controls and reduced finance costs.

The overall book market in the first six months of 2023 proved, as expected, to be even more challenging than 2022.

OPERATING REVIEW

Revenue (\$m)	H1 2023	H1 2022	H1 2021
United States	29.3	39.7	36.3
United Kingdom	7.5	6.6	7.9
Rest of the World	6.8	8.0	6.1
Europe	8.4	7.6	6.6
Total Revenue	52.0	61.9	56.9

Adjusted Operating Profit (\$m)	H1 2023	H1 2022	H1 2021
US Publishing	1.3	4.1	3.8
UK Publishing	2.4	3.1	1.0
Group overhead	(0.6)	(0.5)	(0.8)
Total adjusted operating profit	3.1	6.7	4.0

Note: Revenue is shown by destination; adjusted operating profit is shown by segment.

The Group's decrease in revenue this year to date, is a result of soft trade sales and reduction of our custom sales, following a very strong 2022.

UK-based Frances Lincoln Children's Books imprint continues to drive forward, with the Little People, Big Dreams series continuing to be a highlight, with over 7 million copies sold in the English language to date. We continue to expand the list, with King Charles publishing in 2023, generating \$535k in revenue. This series continues to grow and we add even more foreign language partners to our sales.

In the US, our Beverly-based Adult imprints, especially Motorbooks, Rockport and Walter Foster, continue to perform strongly led by Nascars 75 years and Kawaii Tarot Coloring Book.

Foreign language sales are ahead year on year, and we expect this to continue as we move into H2.

The current shortfall in Custom sales is purely timing and we expect this to recover in H2. English language co-edition sales, currently down year on year, are expected to remain flat as customers work through existing inventory and reprint orders are reduced.

The reduction in our financing costs will continue as we improve our cash position.

OUTLOOK

As we move into H2 we expect the challenges seen in H1 which have been impacting trade sales to continue. With the expected fall in inflation across both the US & UK, we should start to see a softening of the cost-of-living crisis and more buoyancy in the market.

Foreign language sales are expected to hold firm, with strong orders in the pipeline and Custom sales whilst down year on year, are expected to recover during the second half of the year.

The decision to close our Quarto Distribution Service and Smart Lab, our toy imprint, has allowed us to focus on our core publishing business, whilst reducing the overhead in those areas.

After the recent period of volatility in freight in terms of lead times and costs, we have seen significant improvement in both areas. This will allow us a greater number of options when sourcing our print, enabling us to be nimble whilst ensuring competitive pricing.

I am confident we have the right plans in place to capture all potential opportunities. The Board remains focused on keeping costs under control, driving sales, and developing further growth strategies for the remainder of 2023, 2024 and beyond.

On behalf of the Board, I would like to thank all our staff, readers, customers, suppliers and shareholders around the world, for their continued support and commitment.

Alison Goff
Chief Executive Officer

THE QUARTO GROUP, INC.**Condensed Consolidated Income Statement****For the six months ended 30 June 2023**

		Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 December 2022
		Unaudited	Unaudited	Audited
	Note	\$'000	\$'000	\$'000
Continuing operations				
Revenue	3	52,041	61,908	141,017
Cost of sales		(33,699)	(39,391)	(87,319)
Gross profit		18,342	22,517	53,698
Distribution costs		(2,965)	(3,699)	(7,582)
Impairment of financial assets		(264)	(301)	(69)
Administrative expenses		(12,041)	(11,836)	(24,723)
Operating profit before exceptional items		3,072	6,681	21,324
Exceptional items	4	-	491	774
Operating profit	3	3,072	7,172	22,098
Finance costs		(493)	(545)	(1,213)
Profit before tax		2,579	6,627	20,885
Taxation	5	(797)	(1,904)	(4,279)
Profit for the period		1,782	4,723	16,606
Attributable to:				
Owners of the parent		1,782	4,723	16,606

Earnings per share (cents)

From continuing operations

Basic	6	4.4	11.5	40.6
Diluted	6	4.4	11.5	40.6

THE QUARTO GROUP, INC.**Condensed Consolidated Statement of Comprehensive Income****For the six months ended 30 June 2023**

		Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 December 2022
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	Unaudited	Unaudited	Audited
	\$'000	\$'000	\$'000
Profit for the period	1,782	4,723	16,606
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences	625	(2,833)	(2,475)
Total comprehensive income for the period	2,407	1,890	14,131
Attributable to:			
Owners of the parent	2,407	1,890	14,131

THE QUARTO GROUP, INC.**Condensed Consolidated Balance Sheet**

		30 June 2023	30 June 2022	31 December 2022
		Unaudited	Unaudited	Audited
As at 30 June 2023	Note	\$'000	\$'000	\$'000
Non-current assets				
Goodwill		18,860	18,622	18,622
Other intangible assets		1	2	1
Property, plant and equipment		7,264	4,419	7,677
Intangible assets: pre-publication costs		26,147	27,040	25,473
Deferred tax assets		1,834	2,437	1,835
Total non-current assets		54,106	52,520	53,608
Current assets				
Inventories		20,522	22,552	21,826
Trade and other receivables		32,323	38,293	40,122
Cash and cash equivalents	7	13,464	8,106	13,290
Assets held for sales	8	-	2,360	-
Total current assets		66,309	71,311	75,238
Total assets		120,415	123,831	128,846
Current liabilities				
Short term borrowings	7	(4,362)	(3,116)	(4,636)
Trade and other payables		(33,254)	(42,083)	(33,869)
Lease liabilities		(1,231)	(1,111)	(944)
Tax payable		(2,866)	(5,420)	(3,295)
Total current liabilities		(41,713)	(51,730)	(42,744)
Non-current liabilities				
Medium and long-term borrowings	7	-	(10,596)	(9,301)
Deferred tax liabilities		(2,928)	(2,933)	(2,798)
Tax payable		(386)	(386)	(386)
Lease liabilities		(5,641)	(3,087)	(6,277)
Total non-current liabilities		(8,955)	(17,002)	(18,762)

Total liabilities	(50,668)	(68,732)	(61,506)
Net assets	69,747	55,099	67,340
Equity			
Share capital	4,089	4,089	4,089
Paid in surplus	48,701	48,701	48,701
Retained earnings and other reserves	16,957	2,309	14,550
Total equity	69,747	55,099	67,340

THE QUARTO GROUP, INC.**Condensed Consolidated Statement of Changes in Equity**

For the six months ended 30 June 2023

	Share capital	Paid in surplus	Translation reserve	Retained earnings	Equity attributable to owners of the parent
	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2022	4,089	48,701	(6,047)	6,466	53,209
Profit for the period	-	-	-	4,723	4,723
Foreign exchange translation differences	-	-	(2,833)	-	(2,833)
Total comprehensive (expense) / income for the period	-	-	(2,833)	4,723	1,890
Balance at 30 June 2022	4,089	48,701	(8,880)	11,189	55,099
Balance at 1 January 2023	4,089	48,701	(8,522)	23,072	67,340
Profit for the period	-	-	-	1,782	1,782
Foreign exchange translation differences	-	-	625	-	625
Total comprehensive (expense) / income for the period	-	-	625	1,782	2,407
Balance at 30 June 2023	4,089	48,701	(7,897)	24,854	69,747

THE QUARTO GROUP, INC.**Condensed Consolidated Statement of Changes in Equity**

For the year ended 31 December 2022

	Share capital	Paid in surplus	Translation reserve	Retained earnings	Equity attributable to owners of the parent
	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2022	4,089	48,701	(6,047)	6,466	53,209

Profit for the year	-	-	-	16,606	16,606
Foreign exchange translation differences	-	-	(2,475)	-	(2,475)
Total comprehensive (expense) / income for the period	-	-	(2,475)	16,606	14,131
Balance at 31 December 2022	4,089	48,701	(8,522)	23,072	67,340

THE QUARTO GROUP, INC.**Condensed Consolidated Cash Flow Statement****For the six months ended 30 June 2023**

	Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 December 2022
	Unaudited	Unaudited	Audited
	\$'000	\$'000	\$'000
Profit for the period	1,782	4,723	16,606
Adjustments for:			
Net finance costs	493	545	1,213
Depreciation of property, plant and equipment	813	696	2,029
Software amortization	-	50	50
Tax charge	797	1,904	4,279
Impairment of right-of-use assets	-	-	228
Amortization and amounts written off pre-publication costs	8,558	10,176	19,935
Impairment of pre-publication costs	(121)	-	(729)
Forgiveness of the Cares Act Loan	-	(2,272)	(2,272)
(Gain) / loss on disposal of property, plant & equipment	(1)	58	3
Loss on disposal of SmartLab	-	-	1,498
Operating cash flows before movements in working capital	12,321	15,880	42,840
Decrease/ (increase) in inventories	1,597	(5,253)	(3,299)
Decrease / (increase) in receivables	8,523	10,664	8,594
(Decrease) / increase in payables	(1,437)	(10,279)	(17,119)
Cash generated by operations	21,004	11,012	31,016
Income taxes paid	(1,315)	(3,614)	(7,561)
Net cash from operating activities	19,689	7,398	23,455
Investing activities			
Net proceeds from disposal of SmartLab & property, plant & equipment	-	-	1,437
Net proceeds from disposal of property, plant & equipment	1	-	-
Investment in pre-publication costs	(8,597)	(8,997)	(18,067)
Purchases of property, plant and equipment	(190)	(35)	(1,238)
Net cash used in investing activities	(8,786)	(9,032)	(17,868)

Financing activities			
Interest payments	(281)	(182)	(397)
Lease payments	(696)	(837)	(1,708)
External loans repaid	(9,658)	(17,629)	(19,693)
External loans drawn	-	-	1,500
<hr/>			
Net cash used in financing activities	(10,635)	(18,648)	(20,298)
Net increase / (decrease) in cash and cash equivalents	268	(20,282)	(14,711)
Cash and cash equivalents at beginning of period	13,290	28,432	28,432
Foreign currency exchange differences on cash and cash equivalents	(94)	(44)	(431)
<hr/>			
Cash and cash equivalents at end of period	13,464	8,106	13,290
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THE QUARTO GROUP, INC.

Notes to the condensed financial statements

1. Interim Statement

These interim consolidated financial statements are for the half year to 30 June 2023. They were approved by the board on 30 August 2023. These results are unaudited and have not been reviewed by the Group's auditor. The comparative figures for the six months to 30 June 2022 were unaudited and derived from the interim financial statements for that period.

The information for the year ended 31 December 2022 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Basis of preparation

These interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting".

The Group's forecast and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate well within the level of its current banking facilities. The Directors have therefore adopted a going concern basis in preparing the Interim Information.

2. Accounting policies

The accounting policies, significant judgements and key sources of estimation adopted in the preparation of this Interim Report are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2022.

THE QUARTO GROUP, INC.

Notes to the condensed financial statement

3. Segmental analysis

Six months to 30 June 2023	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	26,545	25,496	52,041
Segment result	1,264	2,427	3,691
Unallocated corporate expenses			(619)
Exceptional items			-
Operating profit			3,072
Finance costs			(493)
Profit before tax			2,579
Taxation			(797)
Profit after tax			1,782
Six months to 30 June 2022	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	34,650	27,258	61,908
Segment result	4,096	3,115	7,211
Unallocated corporate expenses			(530)
Exceptional items			491
Operating profit			7,172
Finance costs			(545)
Profit before tax			6,627
Taxation			(1,904)
Profit after tax			4,723
Year ended 31 December 2022	US Publishing	UK Publishing	Total
	\$000	\$000	\$000
Revenue	75,329	65,688	141,017
Segment result	10,608	11,875	22,483
Unallocated corporate expenses			(1,159)
Corporate exceptional items			774
Operating profit			22,098
Finance costs			(1,213)
Profit before tax			20,885
Taxation			(4,279)
Profit after tax			16,606

THE QUARTO GROUP, INC.

Notes to the condensed financial statements

3. Segmental analysis (continued)

Geographical revenue

The Group generates its revenue in the following geographical areas:

	Six months to 30 June 2023	Six months to 30 June 2022	Year ended 31 December 2022
	Unaudited	Unaudited	Audited
	\$'000	\$'000	\$'000
United States	29,336	39,712	85,397
United Kingdom	7,512	6,556	17,052
Europe	8,352	7,616	23,000

Europe	5,000	7,000	20,000
Rest of the World	6,841	8,024	15,469
Total	52,041	61,908	141,017

4. Exceptional Items

	Six months to 30 June 2023 Unaudited \$'000	Six months to 30 June 2022 Unaudited \$'000	Year ended 31 December 2022 Audited \$'000
Exceptional items comprised:			
Impairment costs on remeasurement of Disposal Group (see note 8)	-	(1,781)	-
Smartlab Disposal	-	-	(1,498)
Forgiveness of Cares Act Loan	-	2,272	2,272
Total	-	491	774

5. Taxation

Taxation for the six months to 30 June 2023 is based on the Group estimated underlying tax rate for the year.

THE QUARTO GROUP, INC.

Notes to the condensed financial statements

6. Earnings per share

	Six months to 30 June 2023 Unaudited \$'000	Six months to 30 June 2022 Unaudited \$'000	Year ended 31 December 2022 Audited \$'000
From continuing operations			
Profit for the purposes of basic and diluted earnings per share, being net profit attributable to owners of the parent	1,782	4,723	16,606
Exceptional items (net of tax)	-	(369)	(1,160)
Earnings for the purposes of adjusted earnings per share	1,782	4,354	15,446
	Number	Number	Number
Weighted average number of shares	40,889,000	40,889,000	40,889,100
Dilutive outstanding options awards	-	-	-
Diluted weighted average number of shares	40,889,000	40,889,000	40,899,100

Earnings per share (cents)	Cents	Cents	Cents
From continuing operations			
Basic	4.4	11.5	40.6
Diluted	4.4	11.5	40.6
Adjusted basic	4.4	10.6	37.8
Adjusted diluted	4.4	10.6	37.8

7. Net cash

	30 June 2023 Unaudited	30 June 2022 Unaudited	31 December 2022 Audited
	\$'000	\$'000	\$'000
Net cash / (debt) comprised:			
Cash and cash equivalents	13,464	8,106	13,290
Short term borrowings	(4,362)	(3,116)	(4,636)
Medium and long-term borrowings	-	(10,596)	(9,301)
Net cash / (debt)	9,102	(5,606)	(647)

At 30 June 2023, the Group has a \$12.7m club facility, comprising a term loan, revolving credit facility and overdraft. These facilities expire on 16 July 2024 and are subject to covenants, which were all met in the current period.

THE QUARTO GROUP, INC.**Notes to the condensed financial statements****8. Disposal group held for sale****Assets and liabilities of disposal group held for sale**

	30 June 2023 Unaudited	30 June 2022 Unaudited	31 December 2022 Audited
	\$'000	\$'000	\$'000
Non-current assets	-	16	-
Current assets	-	2,344	-
Assets held for Sale	-	2,360	-

Non-current assets held for sale are Pre-publication costs.

9. Principal risks and uncertainties facing the Group

There have been no changes to the principal risks and uncertainties facing the Group since the year-end. These are disclosed on pages 17 to 19 of the 2022 Annual Report.

10. Financial instruments

There are no material differences between the fair value of financial instruments and their carrying value.

11. Management Statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the

information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

12. Responsibility statement

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements, which has been prepared in accordance with IAS 34 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By the order of the board

Alison Goff
Chief Executive Officer

Andrew Cumming
Chairman

30 August 2023

30 August 2023

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