Outlook

Edison investment research

14 September 2009

The Quarto Group, Inc.

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/07	100.1	7.7	24.4	7.2	4.0	7.0
12/08	112.7	7.7	26.5	7.2	3.7	7.0
12/09e	109.5	6.9	25.4	7.2	3.9	7.0
12/10e	110.6	7.2	25.6	7.2	3.8	7.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Remains defensive

The recent interims show the resilience of Quarto's performance in tough retail markets, with management having demonstrated a solid track record across the economic cycle. We have brought back our forecasts to reflect both markets and the effect of currency movements, yet the shares remain very low rated. The dividend is covered over 3.5x and the shares carry a premium yield.

Looking through

Quarto has inherently strong cash generation that has enabled it to drive an extensive investment programme in both new titles and in maintenance spend that enables the back list to continue generating well over half of revenues. The portfolio approach of imprints to different specialist non-fiction markets has smoothed performance and while some categories continue to be under pressure, revenues at the group level have been relatively robust.

Gearing exaggerated

The majority of the debt is in US dollars and at the end of the half year totalled $98.2m, well inside the committed facilities of $165m, which run through to 2012. The gearing appears high due to the conservative accounting policies in respect of the valuation of the backlist of titles. Only the more recent titles are included on the balance sheet and Edison calculates that an additional £1 per share of assets is not reflected. Including these with shareholders' funds reduces the forecast gearing ratio to 129% from 284%.

Valuation: Low

In the media sector, with direct exposure to discretionary US consumer spend, limited liquidity in the shares and a seemingly (although we argue not) stretched balance sheet, Quarto is facing an uphill struggle to get the market to appreciate its merits. Should the market take on board that the company operates at the low-risk end of the publishing spectrum and that the inherent value of the underlying assets is well beyond that reflected in the balance sheet, then there is considerable potential for the large valuation discrepancy to be narrowed.

Price	98p
Market Cap	£20m

Share price graph

Share details

Code	QRT
Listing	FULL
Sector	Media
Shares in issue	20.4m

Price

52 week	High	Low
	133.5p	52.0p

Balance Sheet as at 30 June 2009

Debt/Equity (%)	313
NAV per share (p)	94
Net borrowings (£m)	60

Business

Quarto is an international publisher of books produced under its own imprints and licensed to other publishers.

Valuation

	2008	2009e	2010e
P/E relative	35%	42%	46%
P/CF	0.3	0.9	0.9
EV/Sales	0.8	0.8	0.8
ROE	33%	29%	24%

Revenues by geography

UK	Europe	US	Other
15%	14%	49%	22%

Analyst

Fiona Orford-Williams 020 3077 5739

forford-williams@edisoninvestmentresearch.co.uk

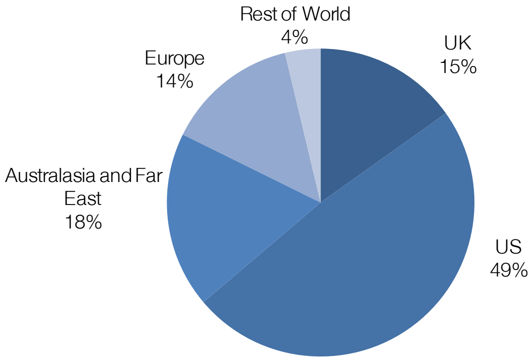
The Quarto Group, Inc. is a research client of Edison Investment Research Limited

Investment summary: Dependable earnings

Company description: International book publisher

Quarto is an international book publisher of titles aimed at enthusiasts, hobbyists and specialists across a wide range of subject areas. It publishes both under its own imprints and via the licensing of titles in co-edition with other publishers in many languages around the world. Its core market is in high-specification illustrated non-fiction, making it far less exposed to the need to generate 'hit' titles or to pay substantial advances to well-known authors. Recent interim figures demonstrated the resilience of its markets, despite the volatility within the US trade and with a notably good performance in the UK.

Exhibit 1: 2008 geographical distribution of revenues



Source: Quarto

Low valuation

In the media sector, with direct exposure to discretionary US consumer spend, limited liquidity in the shares and a seemingly (although we argue not) stretched balance sheet, Quarto is facing an uphill struggle to get the market to appreciate its merits. Should the market take on board that the company operates at the low-risk end of the publishing spectrum and that the inherent value of the underlying assets is well beyond that reflected in the balance sheet, then there is considerable potential for the large valuation discrepancy to be narrowed.

Sensitivities

While there is much talk of changing methods of delivery, books and book buying are not likely to be sidelined as yet. The type of product with which Quarto is associated, with high print quality and production values, does not lend itself well to the very small screen. The group generates a high proportion of its revenues, and has a high proportion of its costs, in US dollars and part of our adjustment to forecasts at this time stems from the movement in the exchange rate over the course of the year so far. Debt is also mostly in US dollars, with facilities committed through to at least June 2012. Active management of short-term debt has already made noticeable savings in the interest burden. The group supplies a wide range of customers and is not dependent on any one subject category or title.

Financials

With the publication of the interim results, we have brought back our forecasts to reflect both the continuing dull markets and the effect on translation of the movement in sterling against the US dollar. Budgets were drawn up at a rate of £1:$1.46, yet the expected average rate for the year is around $1.57. Some 60% of group revenues are US dollar-denominated, as are a majority of the group's costs, meaning the impact lower down the income statement is less marked. With a reduced cost of debt servicing and a lower tax charge, the effect on earnings per share is reduced. The shares carry a premium dividend yield on a dividend covered over 3.5x on our forecasts.

Exhibit 2: Revised estimates

Note: Figures in £m except per share data.

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2008	26.8	-	N/A	7.7	-	N/A	22.0	-	N/A
2009e	27.2	25.4	(7)	7.8	6.9	(12)	23.6	22.9	(3)
2010e	29.2	25.6	(12)	8.3	7.2	(13)	23.9	23.0	(4)

Source: Edison Investment Research

The balance sheet only partially reflects the value of the underlying and revenue-generating assets due to the group's conservative accounting policies. The basic NAV per share that we are anticipating at the end of this calendar year is 76p. However, when we add in the additional value that we attribute to the backlist (on conservative assumptions), Edison's adjusted NAV is 176p, a substantial premium to the current share price. Making the adjustment also decreases the nominal gearing from an apparently stretched 284% to an acceptable level of 129%.

Cash conversion is inherently high, although last year's figure benefited from some timing issues that may or may not be repeated in the current year. Quarto continues to invest in its portfolio, both in new titles and in ensuring that the backlist is 'refreshed' such that it continues to deliver a strong stream of revenue.

Company description: International book publisher

Quarto has an enviably consistent record of delivering resilient results across the economic cycle. While it may not have the glamour of some others within the sector, it has delivered (or is set to deliver) operating margins in the range 8.8-10.4% between 2003 and 2010. The longer-term strategy is to grow the revenues through acquisition as well as ensuring that the various imprints achieve their full organic potential. Historically, management has a proven record of successful integration of acquisitions.

Illustrated non-fiction book publishing

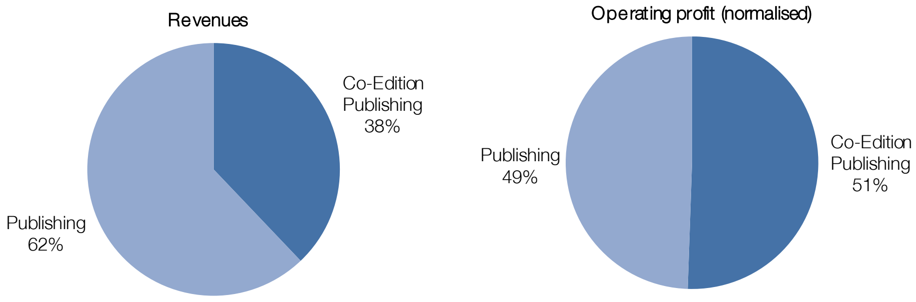
Quarto is an international book publisher, specialising predominantly in hardback illustrated non-fiction, produced to high-specification and aimed at the specialist, enthusiast and hobbyist. Books cover a wide variety of subject matter for both the adult and children's markets. This makes the group less dependent on identifying 'hit' titles and authors than most of its peers and gives it a more dependable earnings stream, albeit without the peaks as well as avoiding the troughs. Books are either published under the group's own imprints or in co-edition with other publishers around the globe. Brief descriptions of the various imprints are given in Exhibit 8 on page 10.

Around 60% of group revenues are invoiced in US dollars, with just under half of sales generated in the US, Quarto's most important market. Other key sales territories are the UK, Australia and New Zealand. The group has print-broking operations based out of Hong Kong and Singapore.

The group's origins are in co-edition publishing, whereby potential titles are offered out under licence to other publishers around the world for them to publish in a variety of languages. This model is becoming less common, so opportunities for growth from acquisition have diminished. The proportion of revenues from own-imprint publishing had grown to account for 62% in 2008.

Quarto has a wide customer base across bookstore chains, online distributors and specialist outlets in its core US market.

Exhibit 3: Breakdown of revenues and pre-exceptional, pre-amortisation operating profits 2008



Source: Quarto

Co-edition publishing

While the market is less familiar with the concept of co-edition publishing, the earnings are particularly defensive and much lower risk than the traditional model. The ownership of the content remains with the Quarto Group, but the external party to whom the licence is granted takes responsibility for distribution, marketing and inventory, ie, takes on the bulk of the risk associated with getting a title to market.

An additional layer of security is that a project will only go ahead if orders are in place for at least $100,000 across three or more markets; and if the operating margin averages over 10% after all direct third-party costs and in-house creative costs. This structure is particularly beneficial for a company such as Quarto with an extensive backlist of titles, where gross margin is considerably higher than on new titles. Quarto's initial investment in a project will typically be around £2,000 – the cost of producing the synopsis and an illustrated mock-up.

Sales from the backlist in 2008 accounted for 65% of revenues (2007: 68%).

First-half performance with revenues down 12% was against comparatives boosted by the timing of new title launches. The H1:H2 programme for 2009 is weighted more strongly to the latter part of the year. The portfolio approach helps to smooth out the peaks and troughs that might hamper individual imprints.

Regent, the print broking business in the Far East, continues to suffer from low confidence among its customer base, predominantly smaller US-based publishing houses.

Book publishing

Quarto has a number of different imprints within its publishing division, each focused on a different target market, by sector and by geography in the key geographic markets of the US, UK and Australasia. The titles are again illustrated non-fiction.

While the gross margins are higher than for the Co-Edition Publishing segment, the overheads are higher and achievable operating margins lower. However, authors' and agents' expectations of advances are considerably lower than for fiction. The level of inventory required through the distribution chain is less and returns are lower than for a traditional publisher. Non-fiction publishers are less vulnerable to the very heavy discounting suffered when distributing high-volume titles through mass merchandisers.

Reprints accounted for 59% of book publishing revenues in 2008, broadly unchanged.

The balance between a good performance in the UK market and more difficult trading conditions in the US meant that revenues from publishing were off 2% in the first half. The performance of the Australasian operations is expected to improve in the second half as new distributors come on stream in New Zealand and the stock position in Australia is in better balance.

Flat is the new up

The stated group strategy is to combine organic growth with appropriate acquisitions. The number of opportunities within Co-Edition has dwindled over the years and recent acquisitions have been of the traditional publishing model. During the boom years, vendors' expectations of pricing and the ready funds of the private equity houses placed many potential acquisitions beyond Quarto's reach. The purchase of MBI Publishing in August 2007 was therefore particularly welcome.

The group has considerable undrawn banking facilities, which could be used to fund further acquisitions, so long as they delivered the pro-forma benefits at the operating level that would ensure that the banking covenants were not breached.

Unlike most quoted companies within the media sector, though, Quarto has not suffered a dramatic fall off in its customers' spending, and has no exposure to advertising spend that has so damaged the newspaper and magazine publishing industry.

Consistent management

Quarto is run by an executive team of three people: Laurence Orbach (67), chairman and CEO, who also has responsibility for group strategy; Robert Morley (64), creative director; and Mick Mousley (56), CFO, who joined the group in 1987. Laurence and Robert co-founded Quarto in 1976 and between them hold 21.1% of the equity.

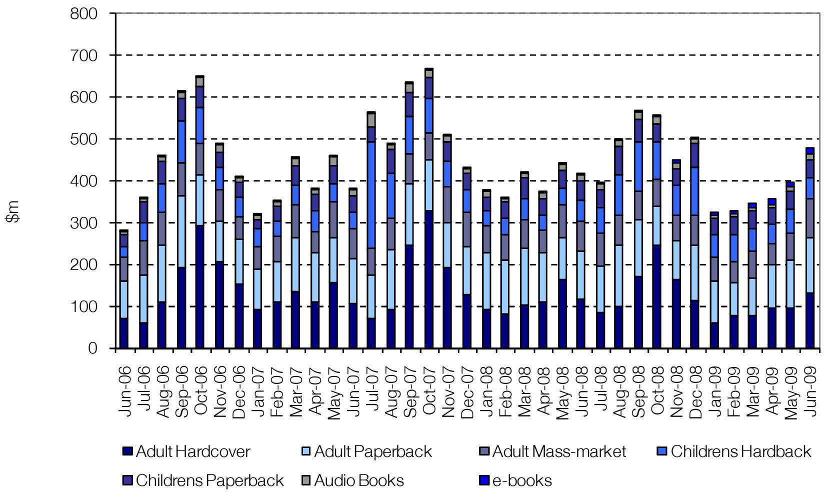
The international Co-Edition book publishing business unit is headed up by Piers Spence and the publishing division by Ken Fund. Each of the underlying imprints is managed separately by its own publisher, as it is important that each retains its own character within its marketplace and is allowed the creative freedom to develop. Support functions for US publishing, however, have been increasingly combined, particularly since the purchase of MBI in August 2007. Warehousing and distribution functions have been consolidated in Wisconsin, with IT, production and finance resource provided from Minneapolis. The sales function has also been brought together.

Market background

Book publishing has long been thought a resilient sector, with the combination of low unit prices and high entertainment value keeping the sales flowing. The picture in Quarto's key US market has been muddied by internal issues at some of the major players which have led to extensive destocking. The latest statements from Borders et al shows the trend apparently slowing.

Figures from the US have shown a very volatile trading pattern over the last few quarters, as the normal cyclicality has been mixed with destocking, not only within the dedicated bookstores but across the mass merchandisers, wholesale clubs, internet-based retailers and mail order operations. As this works its way through, the theory is that publishers will gain greater visibility over where in the distribution system stock is being held and the level of returns, long a major gripe within the industry, should tail off.

Exhibit 4: US consumer book sales



Source: AAP

The domestic US market comprises around 2,600 publishers, with the largest 50 accounting for 80% of industry sales. Major industry names include McGraw-Hill, Pearson, John Wiley & Sons and Scholastic. Other well-known players are subsidiaries of larger organisations: HarperCollins (NewsCorp), Random House (Bertelsmann AG), and Simon & Schuster (CBS Corporation). At the retail end, bookstores were thought to account for around half of the market, with the 50 largest store chains representing c 75% of sales. Barnes & Noble, Borders and Books-a-Million are among the most prominent. Quarto deals with both the national bookstore chains, online distributors such as Amazon, and also with specialist retailers in sectors such as home improvement (such as Home Depot, Lowes) and arts & crafts (Michaels). The overall statistics remain impressive: 50% of Americans over the age of 13 bought a book in 2008.

While most of these have been suffering with the impact of the recession on the US consumer, the latest financial publications from the quoted sector seem to be showing that the falling trend is slowing and, just as importantly for Quarto, that the extent of destocking is also lessening.

The current opening up of new e-delivery mechanisms is seen by some publishers as a threat. Undoubtedly the mass digitisation by Google and the new generation of e-readers will capture some of the market; more so as the quality of the reading experience can be improved. Screen-based formats are (currently) less suitable for Quarto's highly-illustrated works and the opening of new channels may work in the group's favour by highlighting the core value of industry backlists.

Sensitivities

Quarto's business model puts it at the lowest-risk end of the publishing spectrum. Nevertheless, we regard some sensitivities as relevant to an evaluation of the group:

- Retail demand – particularly in the key markets of the US, Australasia and the UK. Historically, book sales have held up well during tougher economic markets due to the relatively low ticket prices and suitability for gifting. The evidence to support a repeat of this pattern in the current downturn so far is mixed, with destocking in the supply chain muddying the waters.
- Currency – around 60% of sales are US dollar-denominated, with the dollar proportion of expenditure higher, as much of the printing is carried out in South-East Asia. Dollar receipts and expenditure are matched as far as is possible, but as the accounts are struck in sterling, there is inevitably a translational risk. The nominal gearing figure is also affected, as debt is mostly US dollar-denominated.
- Interest rates – the group signed a $115m syndicated facility in June 2007, in addition to an existing $50m eight-year private placement facility. Borrowings of $64m are at fixed rates with an average cost of 6.5%.
- Balance of business risk – acquisitions increased the proportion of the group's revenues derived from publishing its own imprints, rather than co-edition publishing. There is a higher financial risk in the former, due to the possibilities of unsold stock and returns. With co-edition publishing, orders are placed before production starts.
- Editorial sensitivity – despite the high proportion of revenues generated by the back list, Quarto does have an ongoing editorial sensitivity. The popularity (or lack of it) of new titles is of fundamental importance.
- Credit risk – given the pressures on retailers, there is a strong possibility that there will be further casualties. Quarto has a very broad spread of customers and has no one title accounting for more than 1% of group sales. Nevertheless, problems in the customer base can lead to a drain on management resource to minimise consequential losses.

Valuation

Quarto remains difficult for the market to value, with the combination of a lack of familiarity with the Co-Edition business model, the US registration and no direct quoted comparators. The lack of liquidity in the stock has exacerbated the disinterest, as has the apparently high level of gearing. This latter is, however, deceptive, as the face of the balance sheet does not reflect the full value of the assets, on which a meaningful return is achieved.

Asset backing higher than it seems

Equity shareholders' funds at the latest balance sheet date, 30 June 2009, were published at £14.7m, equivalent to 72p per share, itself substantive backing to a 98p share price. Minority interests within the group are meaningful, though, and adding these in lifts the backing to 94p.

Quarto's accounting policies are particularly conservative and until recently the group did not attribute any value to the back list of titles, which generates a relatively high proportion of the revenue stream (65% of Co-Edition Publishing revenues and 59% of publishing in 2008). With the publication of the 2006 results, however, the group adopted standard industry practice by capitalising its pre-publication costs. Within its spirit of conservatism, however, the group amortises them over three years, rather than the more commonly found five.

This still leaves an unrecognised element of value. Quarto has built up an estimated catalogue of 9,000 titles. There have been no recent public transactions to provide a benchmark for valuation per title, but our internal calculations show that the price paid for MBI in August 2007 shows a per title equivalent higher than that paid for Marshalls (£6,667), which was predominantly a back list. We continue to use a conservative valuation of £5k per title, giving a valuation for the full back list of £45.0m. The interim balance sheet, as recently published, does recognise some of this value, with the figure for 'other intangible assets' including £1.9m of written-down value attributable to the back list.

The capitalised pre-publication costs less amortisation as at 30 June 2009 were £32.9m, of which we estimate that broadly one-third (£11.0m) represented work in progress. The value of the back list that is represented in the balance sheet is therefore £23.8m (£1.9m plus £21.9m), a figure considerably shy of our back list valuation of £45m. The difference of £21.2m is equivalent to an additional 104p of net assets per share, giving an adjusted NAV of 176p, 80% above the current share price.

Discount to peers

There are comparatively few quoted publishing companies on either side of the Atlantic and none occupies the illustrated non-fiction space. Bloomsbury has a growing stable of reference imprints, but remains, for now, dominated by its fiction and Haynes has a relatively narrow editorial remit. The larger publishers have more broad media interests or are more focused on the educational sector. We do not, therefore, present them as direct competitors, but more to illustrate the extent of the valuation discrepancy.

Exhibit 5: Valuations of quoted publishers

Note: Prices as at 3 September 2009.

	Price	Market cap (m)	P/E	P/E 1	P/CF	EV/ EBITDA	EV/Sales
Quarto	98p	£20	3.7	3.6	0.8	3.3	0.6
Bloomsbury Publishing	135p	£100	19.3	17.9	7.6	5.5	0.5
Haynes Publishing	183p	£30	6.8	6.6	6.1	3.9	1.0
Pearson	7,335p	£5,956	15.3	12.8	9.0	7.2	1.6
Reed Elsevier	436p	£5,285	9.8	9.8	9.8	5.5	2.0
John Wiley, Inc.	$31.30	$1,821	14.5	12.5	5.3	7.1	1.6
Scholastic	$23.60	$857	66.7	13.0	4.5	6.2	0.6

Source: Reuters, Edison Investment Research

Financials

The recent interim results have again proved the resilience of the business model against difficult market conditions. However, the impact of the movement in the dollar during the year to date and some softness in the market means our previous forecasts were not sustainable and we have now published updated estimates for both 2009 and 2010.

Revised forecasts

Exhibit 6: Revised estimates

Note: Figures in £m except per share data.

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2008	26.8	-	N/A	7.7	-	N/A	22.0	-	N/A
2009e	27.2	25.4	(7)	7.8	6.9	(12)	23.6	22.9	(3)
2010e	29.2	25.6	(12)	8.3	7.2	(13)	23.9	23.0	(4)

Source: Edison Investment Research

The revision to the sales line reflects both the continuing dull market and the more substantial movement in the US dollar against sterling. At the start of the year £1:$1.46 was a perfectly reasonable assumption. The current view for the likely outcome for 2009 is for an average rate of c $1.57. With around 60% of revenues being denominated in US dollars, an adjustment was inevitable. However, the effect lower down the income statement is offset by the proportion of the group's costs which are also in US dollars. The impact of our revisions to net income and earnings is reduced, due to a lower than expected interest charge (mostly achieved by active management of short-term debt), a reduced minority charge and a lower tax charge, which we now anticipate at 23%.

The interim figures carried an exceptional charge of £581k, predominantly relating to the consolidation of the US warehouse and back office functions. We anticipate a modest additional cost in the second half.

Good cash conversion

The rate of cash conversion for the group is inherently strong, allowing for continued investment in both new titles and in maintenance spend on the backlist of titles, typically carried out over a three-year cycle. The charge for H109 was £5.7m; a substantial increase on last year's first half figure of £4.6m, which itself was up 24% on the prior comparative period.

2008's overall cashflow was boosted by the timing of shipments around the year end, which we have assumed will not be repeated in the current year. The company benefits from long credit periods with printers. However, this is offset by long settlement terms, particularly with Co-Edition Publishing customers, who receive their goods typically one month after shipment.

Exaggerated gearing

It appears that the group is burdened with high levels of gearing. However, the calculation is based on the balance sheet as published, rather than on the true worth of the business. Quarto has significant committed borrowing facilities, principally comprising a five-year US$115m syndicated facility running to June 2012 and a US$50m private placement facility to December 2014 (amortising from December 2012). There are three key covenants, the most onerous of which requires that operating profit (before exceptionals and goodwill amortisation) should be at least 3x net interest payable.

Exhibit 7: Debt covenants

	2007	2008	2009e	2010e
Net Debt < 3x EBITDA	2.03x	2.38x	2.18x	2.03x
Normalised operating profit > 3x net interest	3.63x	3.08x	3.03x	3.20x
Operating profit before amortisation > 1.5x net interest	3.76x	1.92x	2.81x	3.20x

Source: Forecasts based on Edison model

The anticipated net gearing figure produced from our forecasts is 284%, which of itself appears high. As we have already pointed out, though, we believe the true value of the net assets is considerably above that stated in the balance sheet. Were we to add back the £21.2m of assets calculated in the valuation section above, the technical gearing figure would be a more 'acceptable' 129%. Adding back the minorities and basing the sum on net assets, rather than equity shareholders' funds, reduces the figure further to 115%.

Exhibit 8: Description of operating units

Publishing	
Quayside Publishing (US)	
• MBI Publishing	Leading US publisher of books for transport enthusiasts and distributor of overseas publishers of specialist transport titles. Bought for $12.5m + $22m debt in August 2007. Consists of three imprints: Motorbooks (transport), Voyageur Press (rural, sports and recreational titles) and Zenith Press (military history and aviation), and MBI Distribution.
• CPi	Publisher of photographic step-by-step, how-to books, including titles on home improvement, home decorating, sewing, craft, hunting and fishing.
• Rockport	Illustrated source books for the professional design sector.
• Quarry Books	General reference books in artisan craft, pet care and hobbies.
• Fair Winds Press	Practical titles in nutrition, fitness, eroticism, parenting, beauty, treating sickness, mental health, and using new medicine plus a range of history topics.
Book Sales	Promotional books.
Walter Foster	Art instruction (editorial strategy under review).
JR Books (UK)	Biography, politics, music, humour, history, sport, self-help, featuring high profile authors.
Aurum Press (UK)	Aurum: Biography, film sport military history, travel, architecture, and current affairs; Argentum: high quality practical photography books; and Jacqui Small, illustrated cookbooks, gardening, and interior design books.
Apple Press (UK)	Illustrated reference titles on food and drink, craft and home and lifestyle
Lifetime Distributors (Aus)	Display marketing of books and non-book products through a franchise model.
Premier books (NZ)	Display marketing of books and non-book products.
The World of Fine Wine (UK)	Cultural Journal of the wine world.
Image Factory (UK)	Publishing and market support services.
Co-Edition Publishing	
Quintessance (UK)	1001…, 501…, 101…
QED (UK)	Children's educational publishing.
Quarto Adults (UK)	Art, craft, lifestyle and reference.
Quintet (UK)	Art, craft, interior design, cookery and illustrated reference.
Qu:id (UK)	Current affairs, popular culture, gift and humour.
Q+ (UK)	Highly illustrated, paper engineered titles for the children's market.
Iqon (UK)	Cultural reference books.
RotoVision (Switz)	Visual arts books for students and professionals.
Marshall Editions (UK)	Illustrated reference books.
Global Book Publishing (Aus)	Large, high-quality reference books.
Regent Publishing Services (HK)	Print broking services.

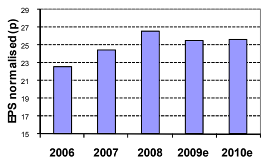
Source: Company R&A and websites

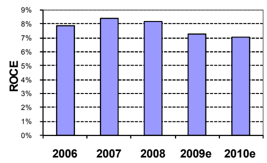
Exhibit 9: Financials

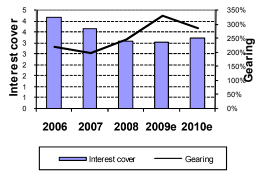
Year end 31 December		2006	2007	2008	2009e	2010e
Accounting basis	£'000s	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		93,613	100,107	112,743	109,520	110,639
Cost of sales		(58,137)	(62,842)	(69,901)	(67,903)	(68,596)
Gross Profit		35,476	37,265	42,842	41,618	42,043
EBITDA		17,977	20,014	21,968	22,857	22,956
Operating Profit (before GW and except.)		17,018	18,976	20,879	21,800	21,900
Amortisation of intangibles		(1,387)	(1,312)	(1,830)	(1,600)	(800)
Exceptionals		(1,238)	370	(4,274)	(731)	0
Amortisation of pre-production costs		(7,461)	(8,416)	(9,529)	(11,500)	(11,500)
Operating Profit		6,932	9,618	5,246	7,969	9,600
Net Interest		(2,295)	(2,909)	(3,686)	(3,400)	(3,250)
Profit Before Tax (norm)		7,262	7,651	7,664	6,900	7,150
Profit Before Tax IFRS		4,637	6,709	1,560	4,569	6,350
Tax		(1,202)	(1,697)	(1,216)	(1,051)	(1,300)
Adjustment to tax for normalised earnings		(845)	(300)	(669)	(536)	(500)
Minority charge		(635)	(769)	(461)	(300)	(300)
Profit After Tax (norm)		4,580	4,885	5,318	5,013	5,050
Profit After Tax (FRS3)		2,800	4,243	(117)	3,218	4,767
Average Number of Shares Outstanding (m)		20.6	20.2	20.0	19.7	19.7
EPS - normalised fully diluted (p)		22.5	24.4	26.5	25.4	25.6
EPS - IFRS (p)		14.3	21.6	(0.6)	16.3	24.2
Dividend per share (p)		6.8	7.2	7.2	7.2	7.2
EBITDA Margin (%)		19%	20%	19%	21%	21%
Operating Margin (before GW and except.) (%)		18%	19%	19%	20%	20%
BALANCE SHEET						
Fixed Assets		20,396	31,641	35,358	32,500	32,500
Intangible Assets		12,697	23,116	26,622	24,500	24,500
Tangible Assets		7,699	8,525	8,736	8,000	8,000
Investment in associates		0	0	0	0	0
Current Assets		75,996	89,759	117,448	113,194	112,021
Intangible Assets: Pre-publication costs		20,919	24,946	32,222	33,000	33,000
Stocks		13,948	15,425	17,821	17,312	17,488
Debtors		27,200	31,811	38,484	37,384	37,766
Cash		13,929	17,577	28,180	25,498	23,767
Current Liabilities		(45,218)	(36,933)	(43,590)	(42,370)	(42,800)
Creditors		(27,418)	(34,173)	(43,257)	(42,020)	(42,450)
Short term borrowings		(17,800)	(2,760)	(333)	(350)	(350)
Long Term Liabilities		(31,546)	(62,602)	(88,102)	(81,000)	(76,000)
Long term borrowings		(27,121)	(58,190)	(80,234)	(75,000)	(70,000)
Other long term liabilities		(4,425)	(4,412)	(7,868)	(6,000)	(6,000)
Net Assets		19,628	21,865	21,114	22,323	25,722
CASH FLOW						
Operating Cash Flow		14,159	21,648	23,763	22,600	23,700
Net Interest		(2,499)	(2,819)	(3,870)	(4,035)	(3,663)
Tax		(611)	(798)	(1,093)	(1,175)	(1,113)
Capex		(9,308)	(11,169)	(14,109)	(14,000)	(14,000)
Acquisitions/disposals		844	(17,822)	(110)	0	0
Financing		56	56	1	0	0
Dividends		(1,535)	(1,581)	(1,655)	(1,655)	(1,655)
Other		583	89	(7,045)	0	0
Net Cash Flow		1,689	(12,396)	(4,118)	1,735	3,269
Opening net debt/(cash)		35,100	30,992	43,373	52,387	49,852
HP finance leases initiated		941	0	0	0	0
Loans acquired with acquisitions		0	0	0	0	0
Translation differences		1,478	15	(4,896)	800	0
Closing net debt/(cash)		30,992	43,373	52,387	49,852	46,583

Source: Edison Investment Research

Growth	Profitability	Balance sheet strength







Sensitivities evaluation	
Litigation/regulatory	○
Pensions	○
Currency	●
Stock overhang	○
Interest rates	●
Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 06-10e	2.6	ROCE 09e	7.3	Gearing 09e	285	Address:	
EPS CAGR 08-10e	-1.7	Avg ROCE 06-10e	7.7	Interest cover 09e	3.0x	226, City Road London EC1V 2TT	
EBITDA CAGR 06-10e	5.0	ROE 09e	28.6	CA/CL 09e	2.7x		
EBITDA CAGR 08-10e	2.2	Gross margin 09e	38.0	Stock turn 09e	6.3x	Phone	020 7700 9000
Sales CAGR 06-10e	3.4	Operating margin 09e	9.4	Debtor days 09e	125	Fax	020 7700 2224
Sales CAGR 08-10e	-0.9	Gr mgn / Op mgn 09e	4.0	Creditor days 09e	138	www.quarto.com	

Principal shareholders	%
J. O. Hambro Capital Management	19.5
L. F. Orbach	14.2
Ennismore Fund Management	11.1
Herald Investment Trust	8.5
R. J. Morley	6.9
Invesco English & International Trust	5.8
The Quarto Group, Inc.	3.7

Forthcoming announcements/catalysts	Date *
Q3 Trading Update	October 2009
2009 Preliminary Results	February 2010

Management team

Chairman & CEO: Laurence Orbach (67)

Previously an academic in New York with publishing experience, Laurence founded Quarto in 1976. He is responsible for group strategy and owns 14.2% of the common stock.

CFO: Mick Mousley (56)

An accountant with Deloitte Haskins & Sells (now part of PWC) for 12 years, the last two of which were as a senior manager in M&A. Mick joined Quarto in 1987 and was appointed finance director two years later.

Creative Director: Robert Morley (64)

Prior to co-founding the group with Laurence Orbach, Robert was a designer and art director for the Sunday Telegraph, later working for Reader's Digest and IPC Part Works among others. He owns 6.9% of the common stock.