Edison investment research

27 September 2011

Quercus Publishing

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
12/09	19.1	0.9	3.7	0.0	33.2	0.0
12/10	31.8	7.5	26.7	5.0	4.6	4.1
12/11e	26.7	6.4	22.8	5.5	5.4	4.5
12/12e	31.7	7.8	27.0	6.0	4.5	4.9

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items. **FY10 7.0p additional special dividend.

Investment summary: From little acorns…

The remarkable success of Stieg Larsson's Millennium Trilogy has propelled Quercus to a prominent position within the publishing sector in an unusually short time frame. Management has seized the opportunity, and the cash flow, to build up both its trade list and contract publishing to the extent that the current-year dip in revenues should be recovered in FY12. Without the hindrance of traditional cost structures, Quercus is taking full advantage of the opportunities stemming from the shift to online. The valuation does not reflect the strong performance of the rest of the lists.

Putting down roots

A disproportionate success can be very disruptive to a young business. However, rather than resting on its laurels, Quercus has used the opportunity to attract a number of experienced publishers who want to build their own imprints within a collegiate environment. The contract publishing element also gives an element of visibility and reduces the group's overall risk profile. The JV in the US, Silver Oak, gives the opportunity to establish a good position in that market without the attendant risks of setting up independently, with the appointment of Pan Macmillan as distributor in Australasia diversifying the opportunity.

Branching out online

Without the drag of a traditional business model and all digital rights secured, the shift to online is much less of a threat to Quercus than for many in the sector. Despite the lower achieved selling prices, margins available from digital distribution are broadly comparable and with the difficulties of many high street retailers, it may prove a smoother route to market. However, the real strength of online is in the opportunity to build greater engagement with readers, driving loyalty and facilitating cross-selling.

Valuation: In the shade

There are very few genuine quoted peers. Quercus, with its PLUS listing, limited liquidity and the perception of the Larsson benefit falling away, is valued at a considerable discount to the larger of the independent peers, Bloomsbury. Once it can be clearly demonstrated that it has achieved a more broad-based model and that it is on a smoother growth path, we would expect its rating to rise.

Price	123p
Market Cap	£25m

Share price graph

Share details

Code	QUPP
Listing	PLUS
Sector	Media
Shares in issue	20.5m

Price

52 week	High	Low
	155p	105p

Balance Sheet as at 30 June 2011

Debt/Equity (%)	N/A
NAV per share (p)	55
Net cash (£m)	6.4

Business

Quercus Publishing is a trade and contract publisher of physical books and e-books, with fiction and non-fiction imprints.

Valuation

	2010	2011e	2012e
P/E relative	48%	63%	59%
P/CF	3.3x	5.4x	4.0x
EV/Sales	0.6x	0.8x	0.6x
ROE	55%	34%	30%

Revenues by geography

UK	US	Other
54%	8%	38%

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Quercus Publishing is a research client of Edison Investment Research Limited

Investment summary: Evolving publisher

Company description: Trade and contract publisher

Quercus is a relatively-recently established publisher, predominantly of fiction. It was founded in May 2004 by Mark Smith, the CEO, and Wayne Davies, who is now director in charge of the group's Digital offer and interfaces. Quercus had initial success in contract publishing with non-fiction titles and then in signing good quality authors, with the debut novel by Stef Penney, *The Tenderness of Wolves*, winning the Costa Award, but had a major breakthrough when it obtained the English-language rights to publish the late Stieg Larsson's Millennium Trilogy. These books were huge successes on both sides of the Atlantic, helped by the associated films. Their success has overshadowed the considerable progress that Quercus has made building up its trade publishing lists and further developing its contract publishing business. With no legacy of traditional cost infrastructure, the group has been in a position to embrace the digital opportunities, which are growing strongly with the increased installed base of e-readers and the burgeoning of social networking.

Valuation: Early days

Quercus has been quoted on PLUS since its early days and, despite winning various accolades, has not yet achieved the profile to obtain a premium rating. Moreover, there is a very small quoted sector across all markets, not just the UK. The obvious peers are Bloomsbury Publishing and the Quarto Group. The former has a premium rating reflecting its success at broadening and strengthening its business after achieving considerable success with JK Rowling, while the latter is at a deep discount. Quercus, with its lack of liquidity and the perception of the Larsson benefit falling away, is valued similarly to Quarto, at a considerable discount to Bloomsbury. Upside should follow when it has clearly demonstrated that it too has achieved a more broad-based model.

Sensitivities

While the number of titles published can be modelled, their success is ultimately in the hands of the public. Replication of past successes may prove elusive. The retail sector has had more than its share of problems over the last few years and the distribution model continues to evolve rapidly. However, online distribution and the increasing penetration of e-readers present considerable opportunities for the group to engage with its customers. As the group increases in size, complexity and geographic exposure, the management challenges will change.

Financials: Larsson legacy

One of the key benefits of the Larsson series has been to provide the group with plenty of cash with which to fund the broadening of the business. A special dividend was also paid to reward those shareholders who have supported the group since its early days and the company is now on the dividend list. With a high proportion of authors at the early stages of their careers, working capital in advances and agents' fees is much less of an issue than for other publishers and there is little requirement for investment in overhead beyond staff and premises.

Company description: Evolving publisher

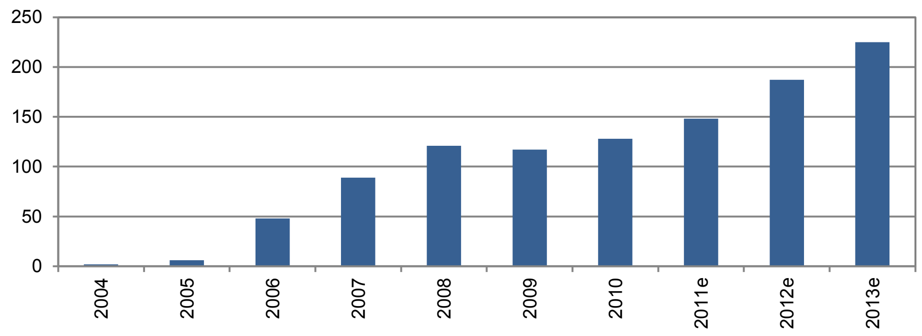
Independent publisher of fiction, non-fiction and children's books

Quercus, established in May 2004, is building its position as a trade and contract publisher, bringing in established publishers to develop imprints to form a portfolio. This will enable the group to grow across a variety of genres, allowing for a sensible mix of entrepreneurialism with control. Achieving such a large scale 'hit' as the Millennium Trilogy at such an early stage could easily have undermined the efforts to grow a balanced and sustainable business. The comparative stability of the top line as the series reaches its end is testament to management's achievement in building up the overall lists.

Trade publishing

Having published two (successful) titles in its first year, Quercus has built to 128 titles published in FY10, making it the UK's 11th largest trade publisher. Trade publishing represents the 'standard' publishing industry model. The vast majority of trade titles are published by imprints in the ownership of a small number of large international media groups, such as Bertelsmann and Lagadère. A mid-sized imprint, such as Orion (Hachette/Lagadère) would typically be publishing 600-650 new titles each year; a large publisher, such as Random House, 2,000-2,500 titles.

Exhibit 1: New titles published by year



Source: Company/Edison

With an initial focus on discovering authors at or towards the beginning of the careers, Quercus (directly or through its various imprints) looks to develop that author; working with them to develop their writing and understand their audience and working with the market to promote their output and maximise sales through all relevant distribution channels. Working predominantly with debut and early-stage authors has the additional benefit that advances and agents' fees are at the lower end of the scale. The current annualised publication rate is around 140 titles, of which about two-thirds are fiction titles, the balance non-fiction. As the group gains a higher profile within the trade, so it is starting to attract higher profile authors. Despite the increased advances and fees that this entails, the risk profile reduces as the authors bring their audience with them.

Even within such a relatively small player, the range of subject matter makes it appropriate to run a number of separate imprints, each headed by a publisher working with editors with a direct and personal relationship with the author under contract. Given the structural changes within the publishing industry over the last few years, driven by digitisation, the value of these author/editor/publisher relationships is much underestimated. The advisory input from the editor will normally begin at an early stage of a book's development and can be crucial in ensuring that the final product is successfully targeted. The publishing house's promotional effort behind a title can also turn out to be the difference between a 'hit' and the short journey to 'out of print'.

The Quercus imprint is the original core of the group. The phenomenal success of the Stieg Larsson books has given the brand a resonance with the public that other publishers could have struggled for for years without achieving. However, to achieve deeper penetration within the trade, a portfolio of imprints is being assembled, each headed by a recognised industry figure and each with a distinct 'personality'. Alongside Quercus Books, the newer imprints are MacLehose Press, headed by Christopher MacLehose, which specialises in translated fiction and non-fiction and which brought the Larsson rights to the group; Jo Fletcher Books (publisher: Jo Fletcher), centred on science fiction, fantasy and horror, and Heron Books (publisher: Susan Watt), specialising in fiction and non-fiction for the 45+ market. Joining the group in October will be Jenny Heller, lately publishing director at Harper Collins, who will be driving the non-fiction offer.

Within the industry, publishers are often comfortably remunerated. Quercus offers publishers joining the group the choice of a conventional package or a model offering them rewards based on sales after costs have been covered, including advances and agents' fees; effectively profit share. The opportunity therefore exists for them to be very financially successful, but only alongside the group and its shareholders. This is attracting individuals to the group of a calibre that would be out of reach of such a small group under a more conventional remuneration structure.

Earlier in the year, the group also launched a 50:50 joint venture called Silver Oak with Sterling Publishing in the US (a division of Barnes & Noble) to publish fiction titles to add to Sterling's non-fiction list. This arrangement provides a low-risk step up in the US market for Quercus, while enabling Sterling to offer a broader range to its customers. Quercus will deliver six new titles in the current financial year, rising thereafter. The first was delivered and published in January.

Millennium Trilogy establishes bridgehead

The first of the Stieg Larsson books, *The Girl with the Dragon Tattoo*, was published in the UK in 2008 and built tremendous momentum for the following books. The three books (together known as the Millennium Trilogy) have sold 55m copies around the world, including 4.6m in the UK. They have been published in 44 languages and have been the first to breach the one million sales barrier on Kindle. The author died suddenly in 2004, having initially planned 10 books in the series. The likelihood of the fourth (partly written) volume being completed and published remains entangled in the Swedish courts. Sales of the first three books will most likely continue, but at a lower rate, with increased interest around the release of the proposed English-language films.

The conspicuous success of the Millennium Trilogy has promoted Quercus's standing with the public and within the industry at a speed that could have seriously compromised the company's ability to handle the growth. That the group has managed to sustain the effort behind other authors and their output to the extent that it has is strong testament to the internal discipline at the group.

H111 has seen particular success for Mark Logue's book, *The King's Speech*, *Dead Men Risen* by Toby Harnden and *An Epic Swindle* by Brian Reade.

Contract publishing

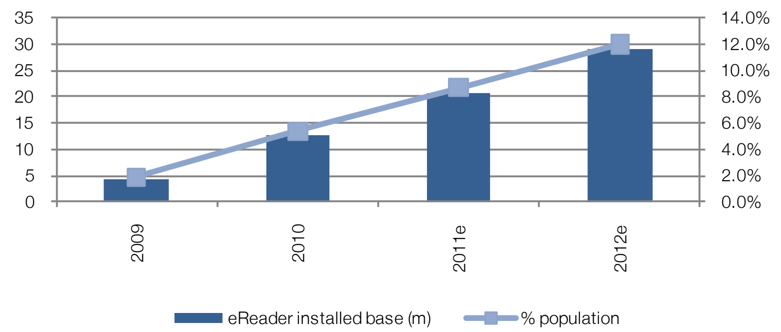
Quercus started out as a contract publisher, adding trade publishing after around 18 months. For FY10, the contract division represented around 15% of overall revenues. The contract publishing model is not a particularly familiar one (the best known exponent is Quarto, where about one-third of publishing sales are contract/co-edition). Unlike normal trade sales, which are distributed out to the retail chain (bricks-, or clicks-, and-mortar) on a sale-or-return basis, contract publishing involves pre-commissioning and pre-selling titles for which the group has the world rights. These are only printed when enough firm orders have been taken to make the run economic and would typically be of non-fiction titles. These can be sold across a number of territories in the appropriate language format, with regular refreshes and updates giving each an extended life and embedding potentially significant value in the group's asset base. Contract publishing offers much better visibility than the traditional model and consequently a far lower-risk income stream.

At the end of FY10, Quercus had the rights to 180 titles, including *The Digital Photography Handbook* and *Speeches that Changed the World*. The latter is a good example of the additional revenue streams that can be available with the digital: traditional book, digital book, digital/audio book and DVD, with the additional ability to sell by the chapter – a digital equivalent of a pamphlet.

Addressing the shift to online

The US market has broadly reached the tipping point for e-readers and the UK is following at a lesser interval than the 'normal' 18-month lag. Adoption in other markets has been notably slower. For many in the traditional book distribution chain, the rapid rise of online distribution has been viewed (in many cases correctly) as a distinct threat to their livelihoods. Being a newcomer, albeit with management and staff who have many years of industry experience, gives Quercus the opportunity to embrace the new methods rather than fear them. The company has the advantage that digital rights have been negotiated alongside traditional published rights, without having to be pulled together from different owners – a major industry issue.

Exhibit 2: Growth of e-readers in the US



Source: eMarketer.com

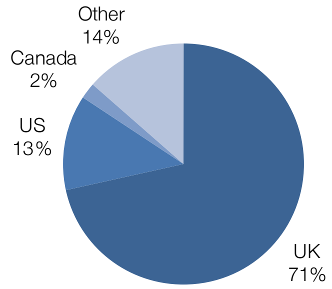
E-books accounted for 3% of Quercus's overall sales in FY10, increasing to 10.5% for H111. Our model assumes that the proportion continues to rise as the installed base of e-readers grows (as indicated by industry forecasts such as those from eMarketer). In the US, industry statistics from the Association of American Publishers show e-book and digital audio books having built to 8.7% of trade sales for FY10, with Forrester forecasting e-book sales to treble to $2.8bn by 2015. Quercus signed up with Apple's iBook store in July and has also signed with Google.

Quercus's online strategy is targeted at engagement with those who have enjoyed reading the books and who can act as proselytisers for authors' works in the wider community. Investment has therefore not been restricted to the company's website, but also to those of the individual authors and their fan base within online communities, delivered by an in-house dedicated social networking team. Building direct relationships with readers enables a far richer stream of information to be gleaned. It allows the group to ascertain their attitudes and perceptions towards details from pricing to jacket design, gives information on their other reading preferences or leisure pursuits, combining information volunteered by the participants and that derived from their browsing habits.

Broadening the geographic reach

The Silver Oak JV, mentioned above, is designed to promote Quercus's fortunes in the complex and crowded North American market. The first title published, in January 2011, was *Three Seconds* by the Swedish authors Roslund and Hellström. It was in the *New York Times* Best Sellers list for four weeks, reaching number eight.

Exhibit 3: Geographic split of revenues FY10



Source: Company

The group has negotiated a distribution agreement with Pan Macmillan for Australia and New Zealand. This commenced on 1 January and should result in a further uplift in Antipodean sales, which (along with South Africa) accounted for the bulk of 'other' in the geographical breakdown of sales for FY10 (12%).

Management with high trade recognition

The Quercus management team has extensive industry experience gained at many industry majors. Its rapid success has led to the team receiving several industry and market accolades, including Publisher of the Year at the Bookseller Awards in May 2011. Quercus was awarded PLUS Company of the Year and won the PLUS markets category at the Growth Company Awards, with Mark Smith also winning the Grant Thornton Growth Company Entrepreneur of the Year in January.

Prior to setting up Quercus, Mark Smith and Wayne Davies spent their careers in larger publishers, building up the experience necessary to run their own business. They worked together at Orion (part of the Lagadère Group) as managing director and publishing director, respectively and had previously both worked at Letts, but not at the same time. Mike McGrath joined from Candlewick Press in the US, a children's publisher and subsidiary of Walker Books. After the board realignment announced in early September, he now has responsibility for Sales across the group. Paul Lenton has been appointed Finance Director, the task previously having fallen under Mike McGrath's remit. The MD of the Trade Division, David North, has over 30 years experience in the sector, most recently as MD of Pan MacMillan. The individual imprints are headed by well know industry figures (see p4).

Non-executive chairman David Potter brings extensive experience within the quoted arena, having worked in the finance sector for 35 years in senior executive positions including at Investec Bank UK, where he was deputy chairman, Guinness Mahon as group CEO and previously at CSFB, Samuel Montagu and Midland Bank. He is also the non-executive chairman of AIM-listed Spark Ventures and a non-executive director of Otus VCT. Pentland Group, which backed the group at an early stage and still has a 47% holding in the equity, is represented on the board by Barry Mosheim.

Independents few and far between

Over the years, there has been considerable consolidation within the publishing arena, with the result that imprints are concentrated in very few hands. For a newly-established independent to register at all with its larger peers is therefore an achievement in itself.

Concentration of publishing ownership

Exhibit 4: Imprint ownership by major players

Bertelsmann			Pearson	Lagadère	Holtzbrinck	News Corp	CBS
Random House	Ebury Press	Transworld Publishing					
Arrow	BBC Books	Anchor	Berkley	Hachette	Macmillan	Harper Collins	Simon & Shuster
Black Lace	Ebury	Bantam	Dorling Kindersley	Headline	Pan	Avon	Pocket Books
Bodley Head	Rider	Black Swan	Hamish Hamilton	Hodder	Picador	Blue Door	Scribner
Century	Time Out	"Expert"	Ladybird	John Murray		Fourth Estate	Free Press
Chatto & Windus	Vermillion	Channel 4	Pegiun	Little, Brown		Voyager	Touchstone
Everyman		Corgi	Puffin	Octopus			
Fodor		Doubleday	Putnam	Orion			
Hutchinson			Viking	Piatkus			
Jonathan Cape				Sceptre			
Nexus				Sphere			
Vintage				Virago			
Windmill				Weidenfeld & Nich			

Source: Companies' websites

While the buying public sees a large number of imprints, often specialising in particular types of books, ownership of those imprints has concentrated in relatively few hands over the years. Most form divisions of much larger enterprises with a broad range of media interests. Exhibit 4 illustrates how the better-known UK-based imprints are divided between these larger organisations. The majority of the ultimate parent companies are quoted, with the exception of Georg von Holtzbrinck, a private family-owned German group. There are very few genuinely independent publishers, with Bloomsbury, Quarto and Quercus among the most prominent names in the UK; Phoenix (and its associated children's imprint Pickwick Press) one of the very few in the US.

The 50 best-selling titles in the UK for the week ending 17 September (as on TheBookseller.com) were published by 29 different imprints (with Penguin, Hodder and Headline publishing the most).

These 29 imprints were in the ultimate ownership of seven media groups, with Lagadère and Bertelsmann in the forefront. Five books were from independent publishers: Guinness World Records, Quercus, Altantic, Bloomsbury and The Stationery Office.

Pricing not all it seems

Looking at the UK chart reveals the extent of discounting at the retail level. The books listed ranged in cover price from £2.50 to £25, with an average recommended price of £10.02. However, the average achieved retail price was £5.90, a discount of 41%. To some extent, there is a vicious circle going on, with recommended prices being ramped up on list prices to compensate for the level of discounting expected in the market. This is exacerbating the problems being faced by the independent book retail sector, which is unable to offer the same extent of deals as might be available to a large multiple retailer/grocer.

Sensitivities

For any publisher, the key metric of success is sales of books to readers (not just to retailers, from which they can be returned), be they in physical or digital form. Even if that success is achieved with one title, there is no guarantee it can be repeated. For some smaller publishers, achieving a high-selling hit can be an issue in itself, in that it places difficult-to-better-targets for future periods. For Bloomsbury, this stemmed from the runaway hit status of the Harry Potter books. Quercus has looked to see what it can learn from its experience in the run down from the Millennium Trilogy. Overall patterns of book sales and forecast totals are therefore a very poor indicator of the likely outturn.

The book retail sector has had an extremely bumpy ride over the last few years, with few having been willing to face up to the shift in distribution patterns at an early enough stage to make effective adjustments to their business models. The land-grab by Amazon, with its ability to carry extensive backlists, highlighted the difficulties in the traditional bricks-and-mortar specialists, which resorted to discounting on hit titles to bring in trade, bringing them into direct competition with the multiple grocers. The resulting fall-out has yet to fully work through, although we are moving towards the end game. It has also served to accentuate the necessity of driving demand through alternative channels: sponsored book clubs, winning prizes and harnessing social media. So far, Quercus has been among the most proactive in the industry in harnessing these opportunities.

As Quercus grows its business and number of imprints, the day-to-day administration of the group increases in complexity. However, management all have experience of working at larger publishers and are familiar with the issues that arise, including the inevitable competing claims for resourcing. With mostly debut or comparatively recently-published authors, expectations for advances and agents' fees are, for now, at the lower end of the scale. As authors become more established (and as more established authors are attracted to Quercus), advances will inevitably increase.

With a large proportion of international content and sales, there is the need for management of currency exposure, with the US, Canadian and Australian dollars all meaningful. The group does not currently hedge its exposure.

Valuation

Quercus is quoted on PLUS Markets. Despite listing at an early stage of its corporate development in 2006, it does not have the level of investor recognition or understanding that might be the case were it to be listed on a more senior market. The lack of liquidity, due to the large holdings by Pentland (47%), which provided much of the original investment funding, and the directors (17%), will also inhibit its potential for re-rating at this stage.

Peer comparison most relevant for valuation

We have made relatively conservative assumptions in our model as to the speed of growth of the business, which cannot be extrapolated on the basis of underlying industry performance. Our assumptions regarding the number of new titles scheduled for launch are illustrated in Exhibit 1, page 3. However, the success or otherwise of titles with the public can defy the input of the most skilled commissioners and editors.

Exhibit 5: Quoted book publishers

Note: Prices at 20 September 2011.

	Price	Mkt Cap	EV/Sales1	EV/EBITDA1	P/E	P/E1	P/E2	Yield	Disc 1
Bloomsbury	98.5p	£71m	0.35	3.6	12.5	11.1	10.2	4.8%	38.2%
Quarto	134.5p	£28m	0.44	3.3	4.9	4.8	4.6	5.6%	(19.2%)
Quercus	123.p	£25m	0.76	3.1	4.6	5.4	4.5	4.1%	(90.6%)
Average			0.52	3.3	7.4	7.1	6.4	4.8%	(23.9%)

Source: Companies' accounts, Thomson Reuters, Edison Investment Research

As explained in the industry analysis above, the performance of most of the competition is masked by their being subsumed within larger organisations with wider media interests. Market ratings are more heavily influenced by the advertising cycle than by the book-buying habits of the public and so do not make for sensible comparators.

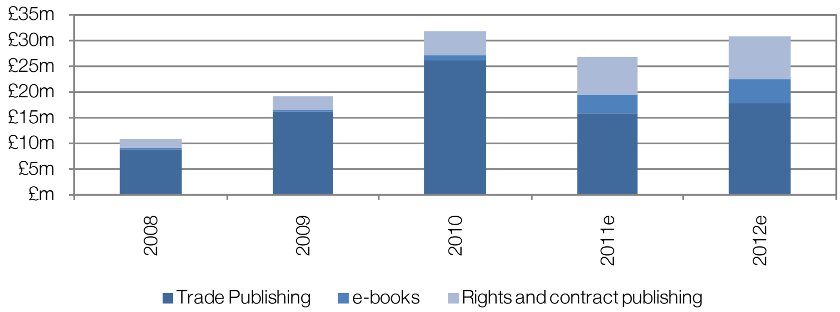
The contrast between the ratings of the other listed independent publishers is stark. Bloomsbury provides a precise example to the market of how a publishing business can move beyond a phenomenal one- (or seven-) off success, but also has a business model that incorporates professional and business orientated output and a growing proportion of contracted income through subscriptions. Quarto has a successful contract publishing business, with a high proportion of its income generated from its backlist and is more exposed to the US than the UK. Its rating is overshadowed by its apparent financial gearing, exaggerated by a balance sheet not fully reflecting the value of its backlist. Quercus's rating is an amalgam of its impressive trading achievement to date, offset by the comparative brevity of its financial record, PLUS Market quotation and the lack of liquidity in the shares. All of these issues should resolve over time.

Financials

The group's financial record since its listing on the PLUS Market has been striking, although the current year results are affected by the inevitable decline in Larsson revenues. However, forecasting is far from an exact exercise. While the number of titles likely to be commissioned and/or published in any particular period is reasonably determinable, sales of those titles are more difficult to estimate. We have built our model based on assumptions regarding the split between trade and contract publishing and for the continuing strong growth in e-book sales. The published breakdown of revenues is by geography.

Maintaining revenues after Larsson peak

Exhibit 6: Estimated split of revenues



Source: Edison Investment Research

The phenomenal success of the Larsson books has overshadowed the progress the group has made in building up both its trade lists and its contract publishing contribution. Non-Larsson trade revenues grew 69% H111: H110. It would be an artificial exercise, though, to try to strip out the 'Larsson effect' as without the industry recognition that this has brought, progress with the rest of the business would likely have been significantly slower. For the group to achieve more-or-less static revenues FY12 over FY10, as in our model, will have been a considerable achievement. Our preliminary thoughts on FY13 would indicate an advance on the previous peak, FY11, at both the revenue and the pre-tax level.

In terms of contribution, there is less margin differential for the publisher between a physical book and an e-book than might be imagined. The physical printing of a book (with the exception of high-quality, highly-illustrated volumes) only accounts for 10-12% of the RRP. The reviewing, editing and page-setting elements, together with the author royalty, comprise the bulk of the overall cost of production and are the same regardless of output medium. Our assumption is that the proportion of sales from electronic forms of publishing will continue to increase broadly in line with the market.

Inherently strong cash flow

The group has little requirement for capital expenditure, nor does it need to carry significant levels of stock, but it does have a need to invest continuously in new titles and authors. As authors within the various imprints become more established, they and their agents will be looking for higher advances and fees and this will become a more meaningful item within the budget. The huge success of the Larsson books has been shared with shareholders by way of a special dividend of 7p, paid alongside the final dividend for FY10, the first year that a dividend had been declared.

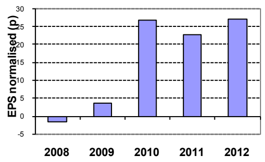
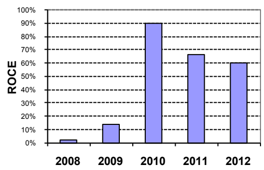
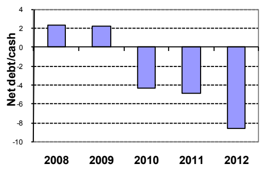
Cash positive balance sheet

The group moved into a net cash position over the course of FY10 and had net balances of £6.4m as at 30 June 2011. Despite the special dividend (physically distributed in H111), we anticipate that the group will end the current financial year with a net cash balance of £4.9m.

Exhibit 7: Summary financial model

£'000s	2008	2009	2010	2011e	2012e
Year end 31 December	UK GAAP	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	10,944	19,133	31,784	26,725	31,650
Cost of Sales	(6,072)	(12,225)	(15,870)	(11,759)	(13,926)
Gross Profit	4,872	6,908	15,914	14,966	17,724
EBITDA	164	1,321	7,728	6,572	7,943
Operating Profit (before amort. and except.)	82	1,236	7,636	6,467	7,818
Intangible Amortisation	(53)	(43)	0	0	0
Exceptionals	0	0	0	0	0
Other	0	0	0	0	0
Operating Profit	29	1,193	7,636	6,467	7,818
Net Interest	(310)	(327)	(151)	(102)	25
Profit Before Tax (norm)	(228)	909	7,485	6,366	7,843
Profit Before Tax (FRS 3)	(281)	867	7,485	6,366	7,843
Tax	42	(251)	(2,074)	(1,801)	(2,219)
Profit After Tax (norm)	(186)	658	5,410	4,564	5,623
Profit After Tax (FRS 3)	(239)	615	5,410	4,564	5,623
Average Number of Shares Outstanding (m)	12.2	17.6	17.6	19.8	20.5
EPS - normalised (p)	(1.5)	3.7	31.1	23.1	27.4
EPS - normalised and fully diluted (p)	(1.5)	3.7	26.7	22.8	27.0
EPS - (IFRS) (p)	(2.0)	3.5	30.8	23.1	27.4
Dividend per share (p)	0.0	0.0	5.0	5.5	6.0
Gross Margin (%)	44.5	36.1	50.1	56.0	56.0
EBITDA Margin (%)	1.5	6.9	24.3	24.6	25.1
Operating Margin (before GW and except.) (%)	0.8	6.5	24.0	24.2	24.7
BALANCE SHEET					
Fixed Assets	159	150	156	550	575
Intangible Assets	0	0	0	0	0
Tangible Assets	159	150	156	550	575
Investments	0	0	0	0	0
Current Assets	12,433	12,096	19,894	18,490	25,128
Stocks	3,776	2,859	2,726	2,362	2,797
Debtors	8,228	9,232	11,700	11,238	13,775
Cash	429	5	5,468	4,890	8,556
Other	0	0	0	0	0
Current Liabilities	(8,746)	(7,742)	(10,126)	(5,800)	(6,869)
Creditors	(6,025)	(5,459)	(9,004)	(5,800)	(6,869)
Short term borrowings	(2,721)	(2,284)	(1,122)	0	0
Long Term Liabilities	(14)	(14)	0	0	0
Long term borrowings	0	0	0	0	0
Other long term liabilities	(14)	(14)	0	0	0
Net Assets	3,832	4,490	9,925	13,240	18,834
CASH FLOW					
Operating Cash Flow	(1,590)	374	7,130	4,824	6,775
Net Interest	(268)	(327)	(151)	(102)	25
Tax	(41)	(1)	(256)	(2,006)	(1,906)
Capex	(60)	(76)	(99)	(100)	(100)
Acquisitions/disposals	0	1	0	0	0
Financing	1,859	42	0	35	0
Dividends	0	0	0	(2,107)	(1,129)
Net Cash Flow	(100)	14	6,624	544	3,666
Opening net debt/(cash)	2,193	2,292	2,278	(4,346)	(4,890)
HP finance leases initiated	0	0	0	0	0
Other	0	(0)	0	0	(0)
Closing net debt/(cash)	2,292	2,278	(4,346)	(4,890)	(8,556)

Source: Company accounts, 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	
EPS CAGR 08-12e	N/A	ROCE 11e	67	Gearing 11e	N/A
EPS CAGR 10-12e	0.5	Avg ROCE 08-12e	46	Interest cover 11e	64x
EBITDA CAGR 08-12e	164	ROE 11e	35	CA/CL 11e	3.2x
EBITDA CAGR 10-12e	1.4	Gross margin 11e	56	Stock turn 11e	32
Sales CAGR 08-12e	30	Operating margin 11e	24	Debtor days 11e	154
Sales CAGR 10-12e	(0.2)	Gr mgn / Op mgn 11e	2.3	Creditor days 11e	70

Company details	
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Principal shareholders	%
Pentland Group	47.2
Mark Smith (Dir)	13.3
Anthony Cheetham	5.7
Wayne Davies (Dir)	3.8

Forthcoming announcements/catalysts	Date *
Trading update	February 2012
Prelims	Early April 2012
AGM	Early May 2012
*Note: * = estimated*	

Management team

Co-founder and CEO: Mark Smith

Before founding Quercus with Wayne Davies in 2004, Mark was MD of Custom Publishing at Orion Publishing Gp, where his brief included monetising the backlists and archives of Orion and Weidenfeld & Nicolson. Previously he was head of business development at Letts Educational, sales and marketing manager, MQ Publications and head of sales development, ABC Ents, Australia.

FD: Paul Lenton

Paul joined on 31 August, having spent 15 years in a variety of senior roles in the media sector. Most recently, he helped set up Creature London for the US parent. His previour roles included FD EMEA at Corbis Images, the intl supplier of digital image licensing and rights and Div FD at Chrysalis Books and Chrysalis TV.

Chairman: David Potter

David is non-executive chair of Spark Ventures and a non-exec director of Otus VCT. He has 35 years' experience in the finance sector including at Investec Bank UK, where he was deputy chair, Guinness Mahon as group CEO and previously at CSFB, Samuel Montagu and Midland Bank.

Companies named in this report

The Quarto Group, Inc., Bloomsbury, Bertelsmann, Lagadère, Pearson, Hachette