

AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2023

Condensed consolidated statement of profit or loss and other comprehensive income for the year ended 30 June

	2023	2022 Restated
	Kshs '000	Kshs '000
Revenue	1,071,031	1,473,485
Cost of sales	(881,120)	(1,016,078)
Gross profit	189,911	457,407
Operating expenses net of other income	(637,846)	(426,946)
Finance costs	(182,182)	(133,339)
Loss before tax	(630,117)	(102,878)
Income tax expense	58,786	18,377
Loss after tax	(571,331)	(84,501)
Other comprehensive (loss)/ income	(1,511)	2,032
Total comprehensive loss	(572,842)	(82,469)

Condensed consolidated statement of financial position as at 30 June

	2023	2022 Restated	2021 Restated
	Kshs '000	Kshs '000	Kshs '000
Pre-publishing costs	963,478	861,924	802,370
Trade and other receivables	265,196	464,064	787,083
Contract assets	413,141	332,005	623,887
Inventories	734,975	564,366	466,740
Cash and bank balances	83,075	160,414	54,018
Other assets	327,927	409,262	392,943
TOTAL ASSETS	2,787,792	2,792,035	3,127,041
Borrowings	1,234,827	979,999	1,194,154
Trade and other payables	1,263,185	949,414	987,796
Total liabilities	2,498,012	1,929,413	2,181,950
Total equity	289,780	862,622	945,091
TOTAL EQUITY AND LIABILITIES	2,787,792	2,792,035	3,127,041

Condensed consolidated statement of changes in equity for the year ended 30 June

	Share capital & premium	Retained earnings/ (accumulated losses) & translation reserve	Non-controlling interest	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Year ended 30 June 2022				
Balance at 1 July 2021 – as previously reported	640,729	100,581	(389)	740,921
Prior year adjustment (net of tax)	-	204,170	-	204,170
Restated total equity as start of year	640,729	304,751	(389)	945,091
Total comprehensive loss for the year (restated)	-	(82,334)	(135)	(82,469)
Balance at 30 June 2022 (restated)	640,729	222,417	(524)	862,622
Year ended 30 June 2023				
Restated total equity as start of year	640,729	222,417	(524)	862,622
Total comprehensive loss	-	(571,622)	(1,220)	(572,842)
Balance at 30 June 2023	640,729	(349,205)	(1,744)	289,780

Condensed consolidated statement of cashflows for the year ended 30 June

	2023	2022 Restated
	Kshs '000	Kshs '000
Net cash generated from operating activities	21,490	557,793
Net cash used in investing activities	(190,421)	(110,727)
Net cash generated from/ (used in) financing activities	83,304	(330,342)
Net increase in cash and cash equivalents	(85,627)	116,724
Cash and cash equivalents at start of year	160,414	36,866
Translation differences on cash and cash equivalents	(6,054)	6,824
Cash and cash equivalents at end of year	68,733	160,414

COMMENTARY ON THE RESULTS

Operating environment:

Various macro-economic headwinds over the past year have had a significant impact on our business. We have seen rising inflation, an increase in interest rates, currency depreciation and a general economic slowdown across our markets which has resulted in a drop in spending on textbooks. In addition, printing costs rose by 70% over the last 12 months resulting in a significant shrinkage of our gross margins from 32% in the prior year to 18% this year. There has been an upsurge of book piracy and the secondhand textbooks market as consumers moved to cheaper unregulated alternatives.

Financial highlights:

- Revenue for the year decreased by Shs 402 million, representing a 27% decline compared to the previous year. The reduction in revenue was primarily attributed to delays in government procurement processes and restatements made in prior years.
- The increase in operating expenses was mainly attributable to one-off costs including goodwill impairment, restructuring cost and pre-publication costs write-offs from old curriculum that are not expected to recur. Management's strategy remains creation of a versatile business model with a lean cost structure, fewer distributors in order to manage credit risk, outsourcing of non-core functions, discontinuation of non-performing businesses and strategic alliances with other publishers to manage product development costs.
- Finance costs increased by 37% from the prior year on account of increased borrowings to fund curriculum development across the region and interest rate hikes from January 2023.

Future outlook:

We are firmly on course to achieving our digital business goals. During the year, we created the Longhorn Digital Ventures which is our corporate venture studio that incubates education technology ideas and spins out the business once a product-market fit has been achieved. Our first successful spin-out, LOHO learning, has already been selected for the Mastercard Foundation accelerator program and received grant funding to build its product. Our focus is building the largest education technology business having a strong base of content for various markets and wide penetration across Africa. Adaptive content driven by Artificial Intelligence and great User experience remains our key drivers of success. We believe that this radical shift in approach will provide a foundation for an entirely new Longhorn business that builds on our key asset, Intellectual Property and the teacher/student ecosystem. Other businesses that we are incubating are My-bidhaa, an online market store that will enable parents to conveniently purchase textbooks, as well as an online platform targeting tertiary level content through Law Africa.

Our approved products continue to increase across the Group as we invest in new curriculum in the countries we operate in. These investments are critical for the future of the Group and the associated economic benefits will be realised for many years once the development is completed by 2026.

We are confident that the business will recover in the coming year as we fully implement our lean business model and digital strategy.

By order of the Board,

Hon. Francis T. Nyamwo OGW, MBS
Group Chairman
28 December 2023