# 4th Quarter 2019 Earnings Call

February 19, 2020

# Call Participants & Forward-Looking Statements

## Joel Quadracci

*Chairman, President & Chief Executive Officer*

## Dave Honan

*Executive Vice President & Chief Financial Officer*

## Forward-Looking Statements

This communication contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding, among other things, our current expectations about the Company's future results, financial condition, revenue, earnings, free cash flow, margins, objectives, goals, strategies, beliefs, intentions, plans, estimates, prospects, projections and outlook of the Company and can generally be identified by the use of words or phrases such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "project," "believe," "continue" or the negatives of these terms, variations on them and other similar expressions. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those expressed in or implied by such forward-looking statements. Forward-looking statements are based largely on the Company's expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control.

The factors that could cause actual results to materially differ include, among others: the impact of decreasing demand for printed materials and significant overcapacity in the highly competitive environment creates downward pricing pressures and potential under-utilization of assets; the impact of digital media and similar technological changes, including digital substitution by consumers; the impact of fluctuations in costs (including labor and labor-related costs, energy costs, freight rates and raw materials) and the impact of fluctuations in the availability of raw materials; the inability of the Company to reduce costs and improve operating efficiency rapidly enough to meet market conditions; the impact of increased business complexity as a result of the Company's transformation into a marketing solutions partner; the failure to successfully identify, manage, complete and integrate acquisitions, investment opportunities or other significant transactions, as well as the successful identification and execution of strategic divestitures; the failure of clients to perform under contracts or to renew contracts with clients on favorable terms or at all; the impact of changing future economic conditions; the fragility and decline in overall distribution channels, including newspaper distribution channels; the impact of changes in postal rates, service levels or regulations; the impact of the various restrictive covenants in the Company's debt facilities on the Company's ability to operate its business; the failure to attract and retain qualified talent across the enterprise; the impact of regulatory matters and legislative developments or changes in laws, including changes in cyber-security, privacy and environmental laws; significant capital expenditures may be needed to maintain the Company's platforms and processes and to remain technologically and economically competitive; the impact of risks associated with the operations outside of the United States, including costs incurred or reputational damage suffered due to improper conduct of its employees, contractors or agents; the impact of an other than temporary decline in operating results and enterprise value that could lead to non-cash impairment charges due to the impairment of property, plant and equipment and other intangible assets; and the impact on the holders of Quad's class A common stock of a limited active market for such shares and the inability to independently elect directors or control decisions due to the voting power of the class B common stock; and the other risk factors identified in the Company's most recent Annual Report on Form 10-K, which may be amended or supplemented by subsequent Quarterly Reports on Form 10-Q or other reports filed with the Securities and Exchange Commission.

Except to the extent required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

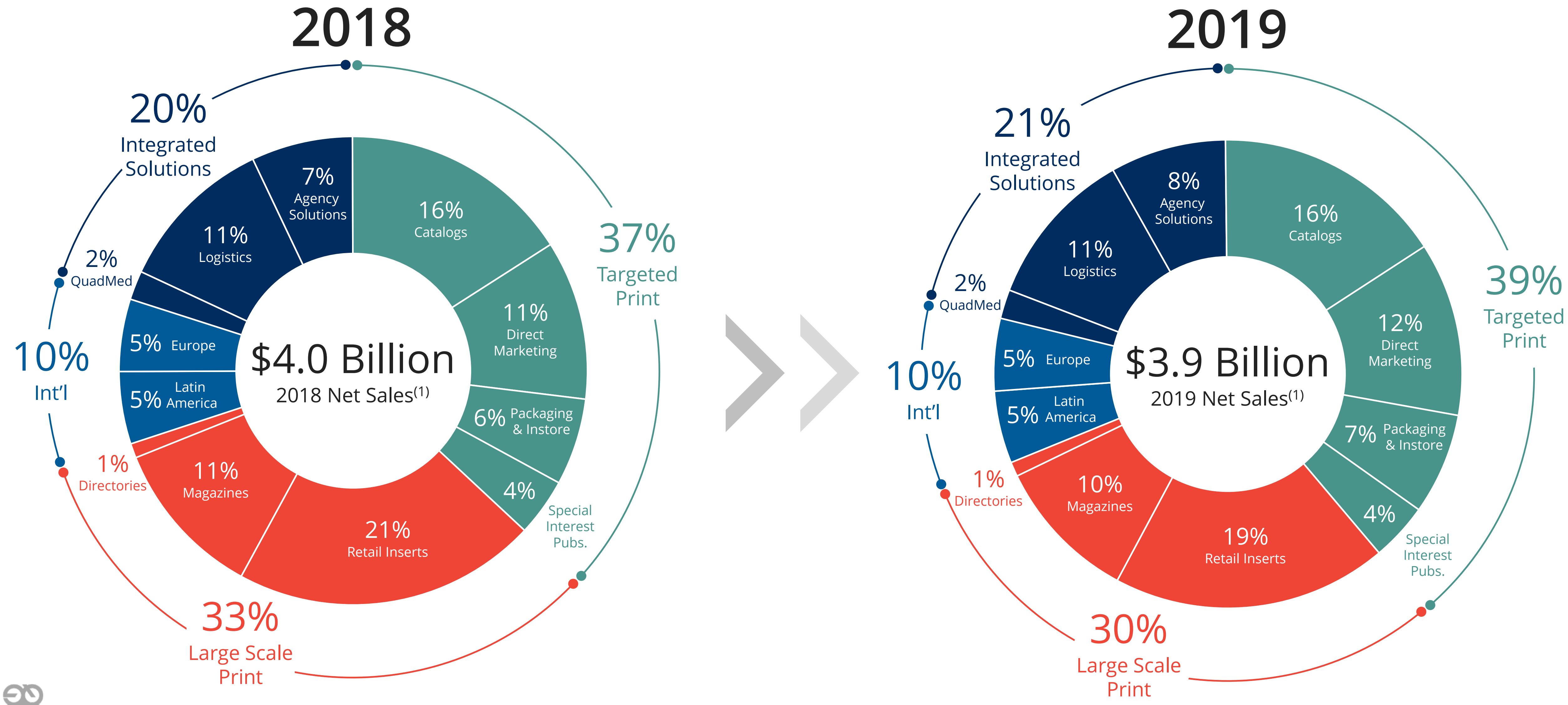
# Strategic Priorities for Quad 3.0:

- Grow the Business Profitably
- Walk in the Shoes of Our Clients
- Strengthen the Core
- Empower Employees
- Enhance Financial Strength and Create Shareholder Value

# Accelerating Our Transformation

- Aggressively Manage Our Product Portfolio
- Expanding Our Partnerships with Clients
- Introduce the Power of Print to Direct-to-Consumer Brands

# Net Sales Breakdown




(1) *Net sales for all periods presented have been adjusted to exclude the book business which is being reported as discontinued operations.*

# Financial Overview

| US $ Millions | Fourth Quarter December 31, 2019 | Fourth Quarter December 31, 2018 | Full-Year December 31, 2019 | Full-Year December 31, 2018 |
|---|---|---|---|---|
| **STATEMENT OF OPERATIONS** *(excluding discontinued operations)* | | | | |
| Net Sales | $ 1,069.9 | $ 1,124.9 | $ 3,923.4 | $ 3,985.8 |
| Cost of Sales | 867.9 | 917.1 | 3,192.2 | 3,221.4 |
| Selling, General and Administrative Expenses | 107.1 | 90.1 | 397.6 | 358.9 |
| **Adjusted EBITDA[(1)]** | **$ 95.8** | **$ 117.7** | **$ 334.9** | **$ 427.8** |
| **Adjusted EBITDA Margin[(1)]** | **9.0%** | **10.5%** | **8.5%** | **10.7%** |
| **STATEMENT OF CASH FLOWS** *(including discontinued operations)* | | | | |
| Net Cash Provided By Operating Activities | | | $ 155.5 | $ 260.6 |
| Capital Expenditures | | | (111.0) | (96.3) |
| LSC-Related Payments | | | 61.3 | — |
| **Free Cash Flow[(1)]** | | | **$ 105.8** | **$ 164.3** |

*(1) See slide 11 for definitions of our non-GAAP measures, slides 12 & 13 for reconciliations of Adjusted EBITDA and Adjusted EBITDA Margin and slide 14 for a reconciliation of Free Cash Flow as non-GAAP measures.*

# Debt Capital Structure as of December 31, 2019

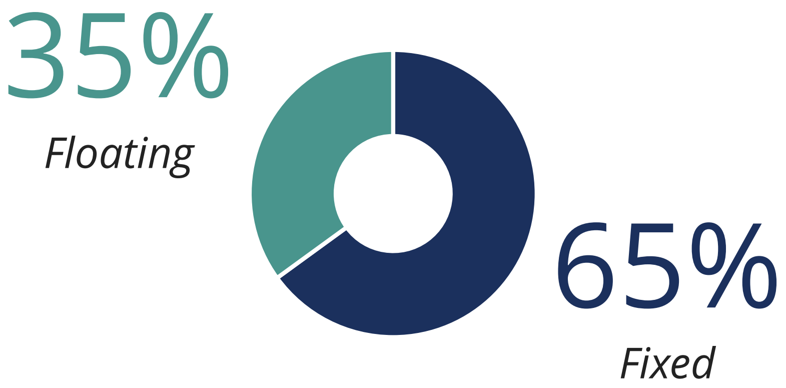
**We have the financial resources to pursue future growth opportunities and return value to our shareholders.**

## $1.1 billion

*Debt and Finance Lease Obligations at December 31, 2019*

## 3.12x

*Debt Leverage Ratio[(1)] as of December 31, 2019*




## 5.2%

*Blended Interest Rate as of December 31, 2019*

## $764 million

*Available Liquidity on Revolver at December 31, 2019*

## May 2022

*Next Significant Debt Maturity*

(1) *See slide 11 for definitions of our Non-GAAP measures and slide 15 for a reconciliation of Debt Leverage Ratio as a Non-GAAP measure.*

# 2020 Annual Guidance

| US $ Millions | 2020 |
|---|---|
| Net Sales | $3.5 to $3.7 billion |
| Adjusted EBITDA[(1)] | $285 to $315 million |
| Free Cash Flow[(1)(2)] | $100 to $130 million |
| Interest Expense | $70 to $80 million |
| Depreciation & Amortization | $185 to $190 million |
| Restructuring and Transaction-Related Cash Expense | $40 to $50 million |
| Capital Expenditures[(2)] | $70 to $80 million |
| Pension Cash Contributions[(3)] | Approximately $20 million |
| Cash Taxes | Less than $10 million |

*(1) See slide 11 for definitions of our non-GAAP measures.*
*(2) Guidance related to the Statement of Cash Flows includes cash flows from discontinued operations.*
*(3) Includes single employer pension plans and multi-employer pension plans.*

# Thank You

# Supplemental Information

# Non-GAAP Financial Measures

- In addition to financial measures prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), this presentation also contains Non-GAAP financial measures, specifically EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Free Cash Flow, Debt Leverage Ratio, and Adjusted Diluted Earnings (Loss) Per Share. The Company believes that these Non-GAAP measures, when presented in conjunction with comparable GAAP measures, provide additional information for evaluating Quad's performance and are important measures by which Quad's management assesses the profitability and liquidity of its business. These Non-GAAP measures should be considered in addition to, not as a substitute for or superior to, net earnings (loss) as a measure of operating performance or to cash flows provided by operating activities as a measure of liquidity. These Non-GAAP measures may be different than Non-GAAP financial measures used by other companies. Reconciliations to the GAAP equivalent of these Non-GAAP measures are contained on slides 12 – 18.
- Adjusted EBITDA is defined as net earnings (loss) attributable to Quad common shareholders excluding interest expense, income tax expense (benefit), depreciation and amortization, restructuring, impairment and transaction-related charges, earnings (loss) from discontinued operations, net of tax, net pension income, employee stock ownership plan contribution, (gain) loss on debt extinguishment, equity in (earnings) loss of unconsolidated entity, the Adjusted EBITDA for unconsolidated equity method investments (calculated in a consistent manner with the calculation for Quad) and net earnings (loss) attributable to noncontrolling interests.
- Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by net sales.
- Free Cash Flow is defined as net cash provided by operating activities less purchases of property, plant and equipment, plus LSC-related payments, which includes payments for transaction-related costs associated with the now terminated acquisition of LSC Communications, Inc. and the incremental interest payments associated with the 2019 amended debt refinancing.
- Debt Leverage Ratio is defined as total debt and finance lease obligations divided by the last twelve months of Adjusted EBITDA.
- Adjusted Diluted Earnings (Loss) Per Share is defined as earnings (loss) from continuing operations before income taxes and equity in (earnings) loss of unconsolidated entity excluding restructuring, impairment and transaction-related charges, employee stock ownership plan contribution, (gain) loss on debt extinguishment, and adjusted for income tax expense at a normalized tax rate, divided by diluted weighted average number of common shares outstanding.

# Adjusted EBITDA

*Fourth Quarter*

| | Three Months Ended December 31, | |
|---|---|---|
| **US $ Millions** | **2019** | **2018** |
| Net earnings (loss) attributable to Quad common shareholders | $ 7.5 | $ (20.8) |
| Interest expense | 20.4 | 19.3 |
| Income tax expense (benefit) | 3.6 | (2.6) |
| Depreciation and amortization | 50.2 | 52.9 |
| EBITDA [Non-GAAP] | $ 81.7 | $ 48.8 |
| EBITDA Margin [Non-GAAP] | 7.6% | 4.3% |
| Restructuring, impairment and transaction-related charges | 15.7 | 62.7 |
| (Earnings) loss from discontinued operations, net of tax | (0.5) | 9.4 |
| Net pension income | (1.5) | (3.1) |
| Other[1] | 0.4 | (0.1) |
| **Adjusted EBITDA [Non-GAAP]** | **$ 95.8** | **$ 117.7** |
| **Adjusted EBITDA Margin [Non-GAAP]** | **9.0%** | **10.5%** |

(1) *Other includes the following items: (a) the equity in (earnings) loss of unconsolidated entity, which includes the results of operations for an investment in an entity where Quad has the ability to exert significant influence, but not control, and is accounted for using the equity method of accounting; (b) the Adjusted EBITDA for unconsolidated equity method investments, which was calculated in a consistent manner with the calculation above for Quad; and (c) the net earnings (loss) attributable to noncontrolling interests, which is the portion of the net earnings (loss) not owned by Quad for an investment where Quad has a controlling financial interest.*

# Adjusted EBITDA

*Full-Year*

| US $ Millions | Year Ended December 31, 2019 | 2018 |
|---|---|---|
| Net earnings (loss) attributable to Quad common shareholders | $ (156.3) | $ 8.5 |
| Interest expense | 90.0 | 73.2 |
| Income tax benefit | (24.4) | (2.4) |
| Depreciation and amortization | 209.5 | 214.9 |
| EBITDA [Non-GAAP] | $ 118.8 | $ 294.2 |
| EBITDA Margin [Non-GAAP] | 3.0% | 7.4% |
| Restructuring, impairment and transaction-related charges | 89.4 | 103.3 |
| Loss from discontinued operations, net of tax | 100.6 | 22.0 |
| Net pension income | (6.0) | (12.4) |
| Employee stock ownership plan contribution | — | 22.3 |
| Loss on debt extinguishment | 30.5 | — |
| Other(1) | 1.6 | (1.6) |
| **Adjusted EBITDA [Non-GAAP]** | **$ 334.9** | **$ 427.8** |
| **Adjusted EBITDA Margin [Non-GAAP]** | **8.5%** | **10.7%** |

(1) *Other includes the following items: (a) the equity in (earnings) loss of unconsolidated entity, which includes the results of operations for an investment in an entity where Quad has the ability to exert significant influence, but not control, and is accounted for using the equity method of accounting; (b) the Adjusted EBITDA for unconsolidated equity method investments, which was calculated in a consistent manner with the calculation above for Quad; and (c) the net earnings (loss) attributable to noncontrolling interests, which is the portion of the net earnings (loss) not owned by Quad for an investment where Quad has a controlling financial interest.*

# Free Cash Flow

*Full-Year*

| US $ Millions | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Net cash provided by operating activities | $ 155.5 | $ 260.6 |
| Less: purchases of property, plant and equipment | (111.0) | (96.3) |
| Plus: LSC-related payments[1] | 61.3 | — |
| **Free Cash Flow [Non-GAAP]** | **$ 105.8** | **$ 164.3** |

*(1) LSC-related payments include transaction-related costs associated with the proposed, but now terminated, acquisition of LSC Communications, Inc., including a $45 million reverse termination fee and incremental interest payments associated with the 2019 amended debt refinancing during the year ended December 31, 2019.*

# Debt Leverage Ratio

| | Year Ended December 31, | |
|---|---|---|
| **US $ Millions** | **2019** | **2018** |
| Total debt and finance lease obligations on the balance sheets | $ 1,112.2 | $ 940.8 |
| Divided by: | | |
| Adjusted EBITDA for Quad for the year ended [Non-GAAP] | $ 334.9 | $ 427.8 |
| Pro Forma Adjusted EBITDA for acquired companies(1) [Non-GAAP] | — | 2.9 |
| Adjusted EBITDA for the year ended [Non-GAAP] | $ 334.9 | $ 430.7 |
| **Debt Leverage Ratio [Non-GAAP]** | **3.32x** | **2.18x** |
| | | |
| **Debt Leverage Ratio — Net of Excess Cash [Non-GAAP](2)** | **3.12x** | **2.05x** |

*(1) As permitted by the Company's senior secured credit facility, certain pro forma financial information related to the acquisition of Ivie & Associates, LLC ("Ivie") was included in calculating the Debt Leverage Ratio as of December 31, 2018. As the acquisition of Ivie was completed on February 21, 2018, the $2.9 million pro forma Adjusted EBITDA represents the period from January 1, 2018, to February 20, 2018. Adjusted EBITDA for Ivie was calculated in a consistent manner with the calculation for Quad. Ivie's financial information has been consolidated within Quad's financial results since the date of acquisition. If the two months of pro forma Adjusted EBITDA for Ivie was not included in the calculation, the Company's Debt Leverage Ratio would have been 2.20x as of December 31, 2018.*

*(2) The Company had $79 million and $70 million in cash and cash equivalents at December 31, 2019 and 2018, respectively. Based on the Company's typical year-end cash balance of approximately $10 million, Quad had $69 million and $60 million of excess cash at December 31, 2019 and 2018, respectively. If the excess cash was used to further pay down debt, the Debt Leverage Ratio would have been 3.12x and 2.05x at December 31, 2019 and 2018, respectively.*

# Balance Sheet

| US $ Millions | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 78.7 | $ 69.5 |
| Receivables, less allowances for doubtful accounts | 456.1 | 497.6 |
| Inventories | 210.5 | 279.0 |
| Prepaid expenses and other current assets | 109.0 | 45.2 |
| Property, plant and equipment—net | 1,036.5 | 1,153.8 |
| Operating lease right-of-use assets—net | 97.9 | — |
| Goodwill | 103.0 | 44.5 |
| Intangible assets—net | 137.2 | 112.6 |
| Other long-term assets | 131.1 | 93.2 |
| Assets of discontinued operations | 57.1 | 173.7 |
| **Total assets** | **$ 2,417.1** | **$ 2,469.1** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable | $ 416.7 | $ 496.3 |
| Accrued liabilities | 292.9 | 275.0 |
| Current portion of debt and finance lease obligations | 47.7 | 47.9 |
| Current portion of operating lease obligations | 30.2 | — |
| Long-term debt and finance lease obligations | 1,064.5 | 892.9 |
| Operating lease obligations | 70.4 | — |
| Deferred income taxes | 2.8 | 32.1 |
| Single and multi-employer pension obligations | 122.9 | 133.5 |
| Other long-term liabilities | 108.3 | 108.4 |
| Liabilities of discontinued operations | 16.4 | 22.8 |
| **Total liabilities** | **$ 2,172.8** | **$ 2,008.9** |
| **Total Shareholders' equity and noncontrolling interests** | **$ 244.3** | **$ 460.2** |
| **Total liabilities and shareholders' equity** | **$ 2,417.1** | **$ 2,469.1** |

# Adjusted Diluted Earnings (Loss) Per Share

*Fourth Quarter*

| | Three Months Ended December 31, | |
|---|---|---|
| **US $ Millions (Except Per Share Data)** | **2019** | **2018** |
| Earnings (loss) from continuing operations before income taxes and equity in (earnings) loss of unconsolidated entity | $ 10.1 | $ (14.1) |
| Restructuring, impairment and transaction-related charges | 15.7 | 62.7 |
| Adjusted net earnings from continuing operations, before income taxes [Non-GAAP] | 25.8 | 48.6 |
| Income tax expense at 25% normalized tax rate | 6.5 | 12.2 |
| Adjusted net earnings from continuing operations [Non-GAAP] | $ 19.3 | $ 36.4 |
| | | |
| Basic weighted average number of common shares outstanding | 50.2 | 49.4 |
| Plus: effect of dilutive equity incentive instruments [Non-GAAP] | 0.8 | 1.5 |
| Diluted weighted average number of common shares outstanding [Non-GAAP] | 51.0 | 50.9 |
| **Adjusted Diluted Earnings Per Share from continuing operations [Non-GAAP]** | **$ 0.38** | **$ 0.72** |
| Diluted earnings (loss) per share from continuing operations [GAAP] | $ 0.14 | $ (0.23) |

# Adjusted Diluted Earnings (Loss) Per Share

*Full-Year*

| | Year Ended December 31, | |
|---|---|---|
| **US $ Millions (Except Per Share Data)** | **2019** | **2018** |
| Earnings (loss) from continuing operations before income taxes and equity in (earnings) loss of unconsolidated entity | $ (79.8) | $ 26.5 |
| Restructuring, impairment and transaction-related charges | 89.4 | 103.3 |
| Employee stock ownership plan contribution | — | 22.3 |
| Loss on debt extinguishment | 30.5 | — |
| Adjusted net earnings from continuing operations, before income taxes [Non-GAAP] | 40.1 | 152.1 |
| Income tax expense at 25% normalized tax rate | 10.0 | 38.0 |
| Adjusted net earnings from continuing operations [Non-GAAP] | $ 30.1 | $ 114.1 |
| | | |
| Basic weighted average number of common shares outstanding | 50.0 | 49.8 |
| Plus: effect of dilutive equity incentive instruments [Non-GAAP] | 0.9 | 1.8 |
| Diluted weighted average number of common shares outstanding [Non-GAAP] | 50.9 | 51.6 |
| **Adjusted Diluted Earnings Per Share from continuing operations [Non-GAAP]** | **$ 0.59** | **$ 2.21** |
| Diluted earnings (loss) per share from continuing operations [GAAP] | $ (1.11) | $ 0.59 |