

Quad/Graphics, Inc.

4th Quarter 2016 Earnings Call



Joel Quadracci
Chairman, President & CEO



Dave Honan
Executive Vice President & CFO

February 22, 2017

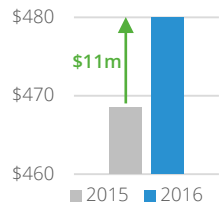
Forward-Looking Statements

- To the extent any statements in this investor presentation contain information that is not historical, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to, 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 Quad/Graphics, Inc. (the "Company" or "Quad/Graphics"), and can generally be identified by the use of words 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. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements.
- These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the control of Quad/Graphics. These risks, uncertainties, and other factors could cause actual results to differ materially from those expressed or implied by those forward-looking statements. Among risks, uncertainties and other factors that may impact Quad/Graphics are: the impact of decreasing demand for printed materials and significant overcapacity in the highly competitive commercial printing industry creates downward pricing pressures; the impact of electronic media and similar technological changes, including digital substitution by consumers; the inability of the Company to reduce costs and improve operating efficiency rapidly enough to meet market conditions; the impact of changing future economic conditions; the failure of clients to perform under contracts or to renew contracts with clients on favorable terms or at all; the failure to attract and retain qualified production personnel; the impact of increased business complexity as a result of the Company's entry into additional markets; 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 failure to successfully identify, manage, complete and integrate acquisitions and investments; 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 changes in postal rates, service levels or regulations; the impact of regulatory matters and legislative developments or changes in laws, including changes in cyber-security, privacy and environmental laws; the fragility and decline in overall distribution channels, including newspaper distribution channels; the impact of the various restrictive covenants in the Company's debt facilities on the Company's ability to operate its business; significant capital expenditures may be needed to maintain the Company's platform and processes and to remain technologically and economically competitive; the impact on the holders of Quad/Graphics 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; 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 other risk factors identified in the Company's most recent Annual Report on Form 10-K, as such may be amended or supplemented by subsequent Quarterly Reports on Form 10-Q or other reports filed with the Securities and Exchange Commission.
- Quad/Graphics cautions that the foregoing list of risks, uncertainties and other factors is not exhaustive and you should carefully consider the other factors detailed from time to time in Quad/Graphics' filings with the United States Securities and Exchange Commission and other uncertainties and potential events when reviewing Quad/Graphics' forward-looking statements.
- Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this investor presentation. Except to the extent required by the federal securities laws, Quad/Graphics undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

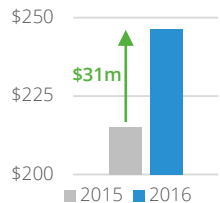




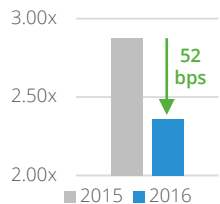
2016 Financial Results



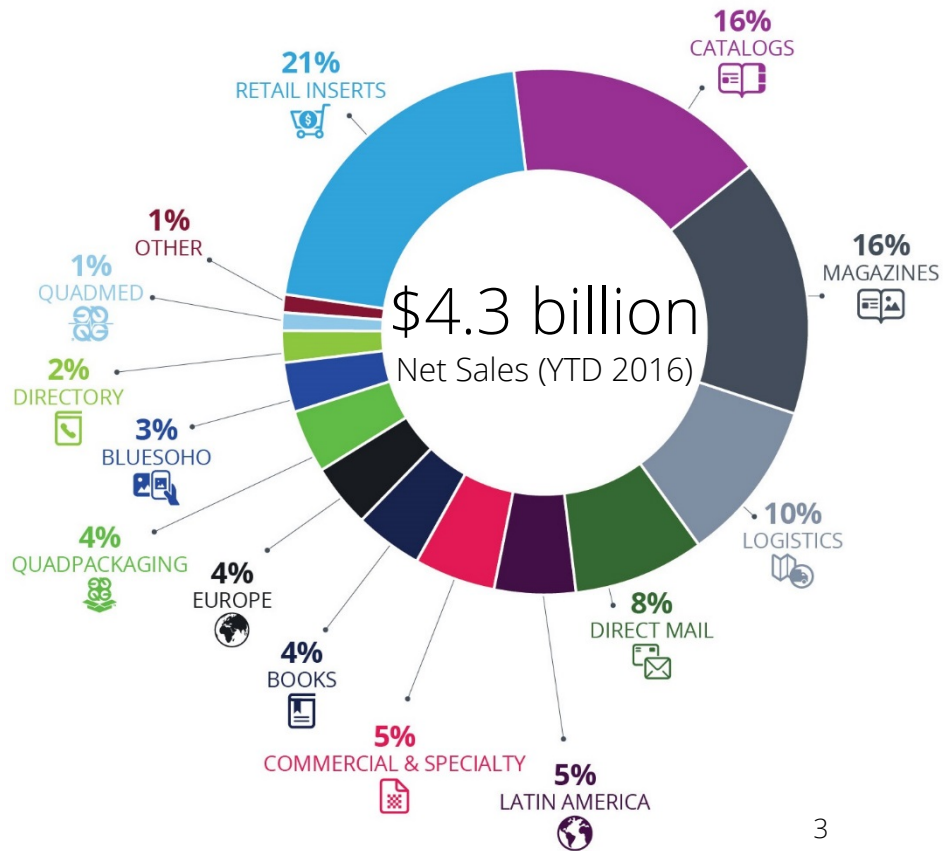
\$480 million
Adjusted EBITDA⁽¹⁾ (YTD 2016)



\$246 million
Free Cash Flow⁽¹⁾ (YTD 2016)



2.36x
Debt Leverage Ratio⁽¹⁾



(1) See slides 14 — 21 for definitions and reconciliations of non-GAAP measures.

Accelerate Transformative Growth

Sustainable
Free Cash Flow

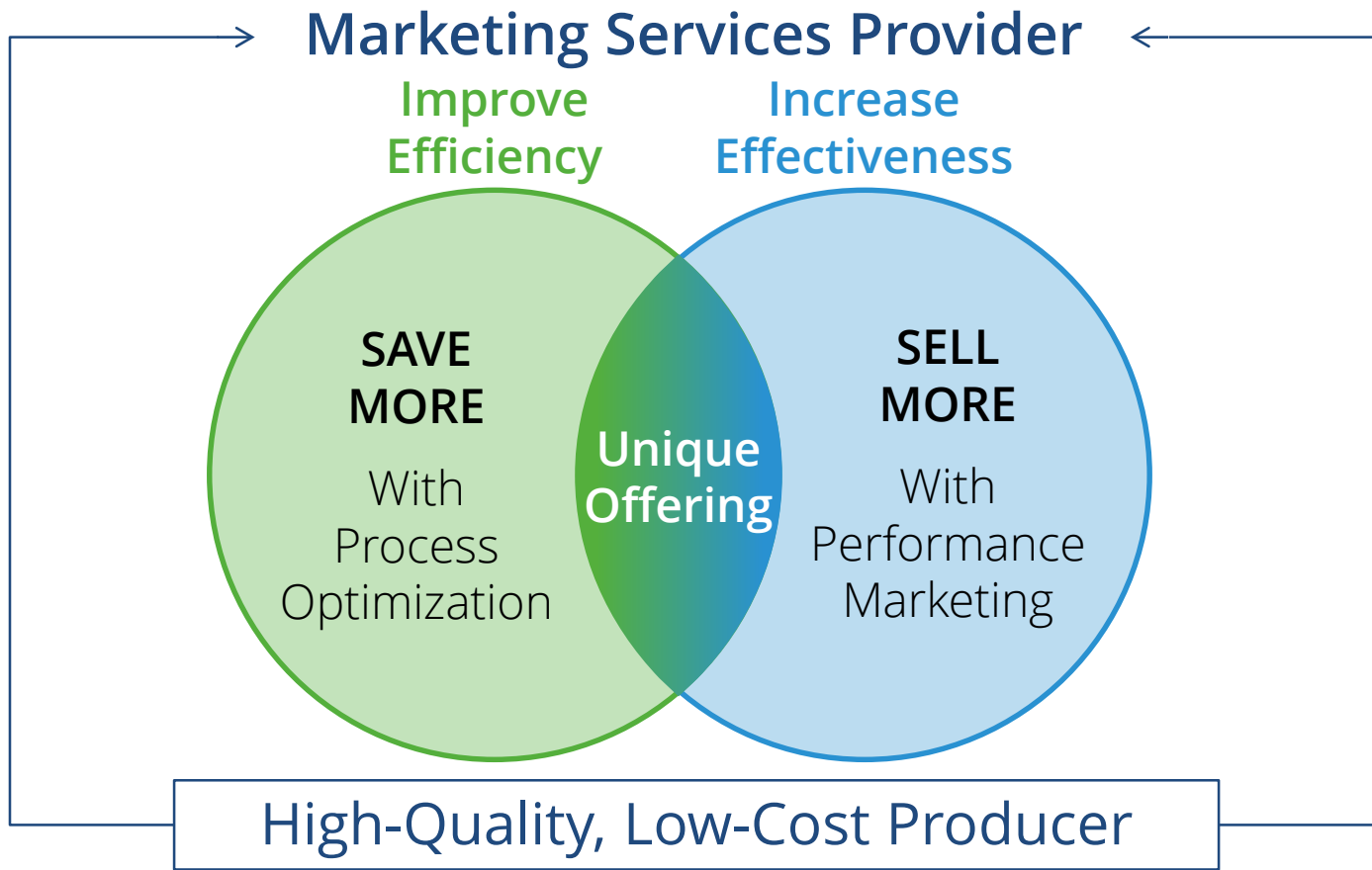
Drive EBITDA
Enhancement

Strengthen the
Balance Sheet

Provide
Long Term
Shareholder
Returns



Our Path Forward in 2017



Financial Overview

(\$ in millions)

December 31, 2016

December 31, 2015

Fourth Quarter

Net Sales	\$ 1,198	\$ 1,314
Cost of Sales	945	1,037
SG&A	113	122
Adjusted EBITDA ⁽¹⁾	140	154
Adjusted EBITDA Margin ⁽¹⁾	11.7%	11.7%

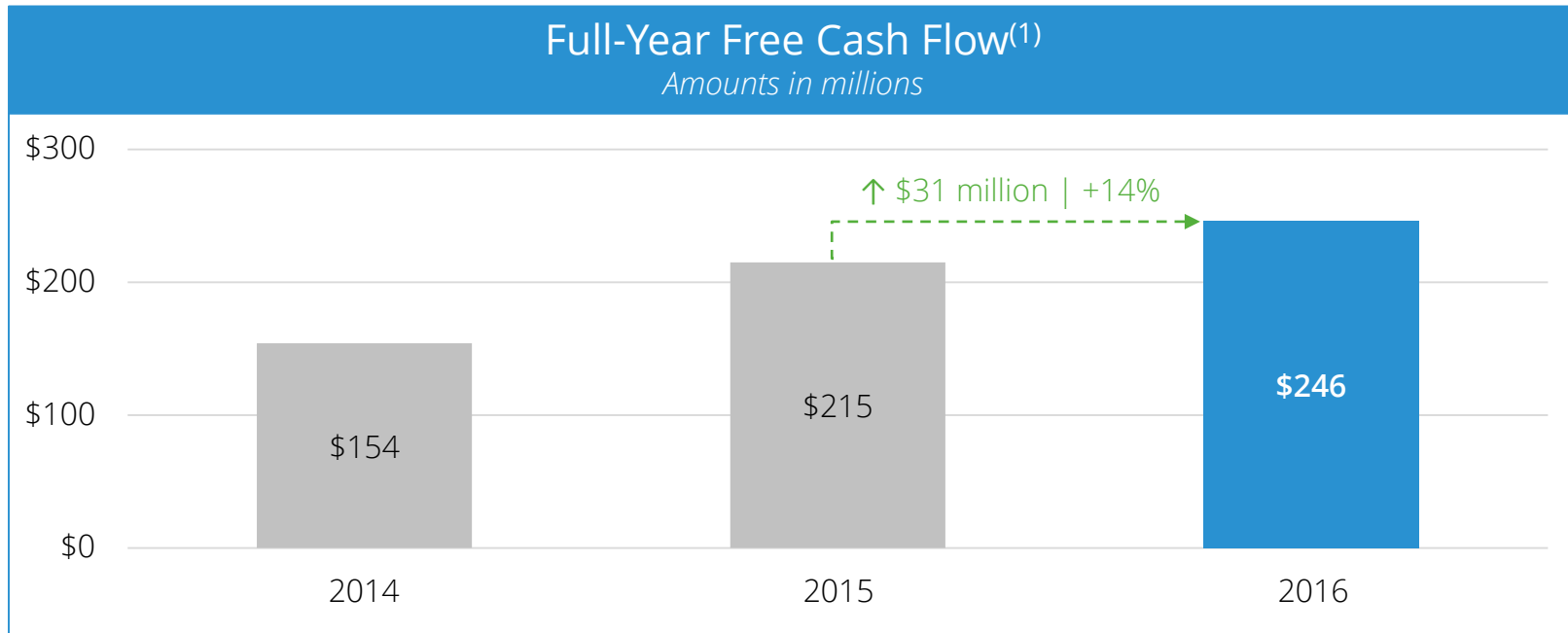
Full-Year

Net Sales	\$ 4,330	\$ 4,597
Cost of Sales	3,395	3,680
SG&A	455	448
Adjusted EBITDA ⁽¹⁾	480	469
Adjusted EBITDA Margin ⁽¹⁾	11.1%	10.2%

(1) See slide 14 for definitions of our non-GAAP measures and slides 15 and 16 for reconciliations of Adjusted EBITDA and Adjusted EBITDA Margin as non-GAAP measures.



Strong Free Cash Flow⁽¹⁾

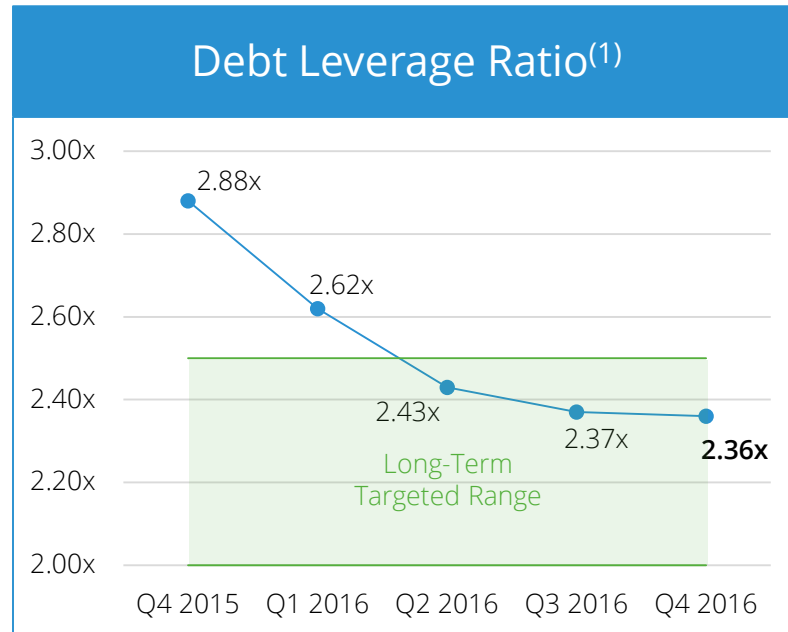
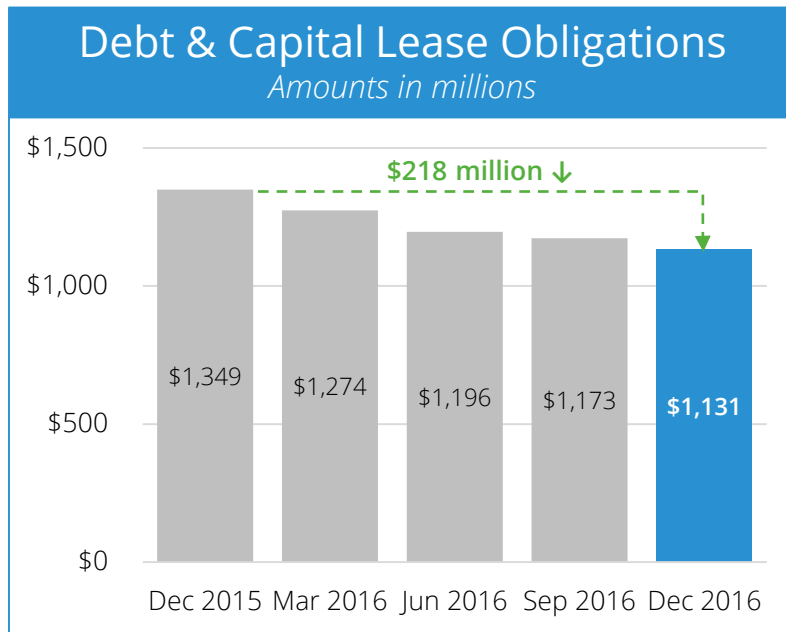


We believe we have the ability to sustain Free Cash Flow⁽¹⁾
at 2016 levels into the foreseeable future.

(1) See slide 14 for definitions of our non-GAAP measures and slide 17 for a reconciliation of Free Cash Flow as a non-GAAP measure.



Flexible Balance Sheet



\$1.0 billion in debt and pension pay-down since July 2010



(1) See slide 14 for definitions of our non-GAAP measures and slide 18 for a reconciliation of Debt Leverage Ratio as a non-GAAP measure.

Debt Extension & Interest Rate Swap

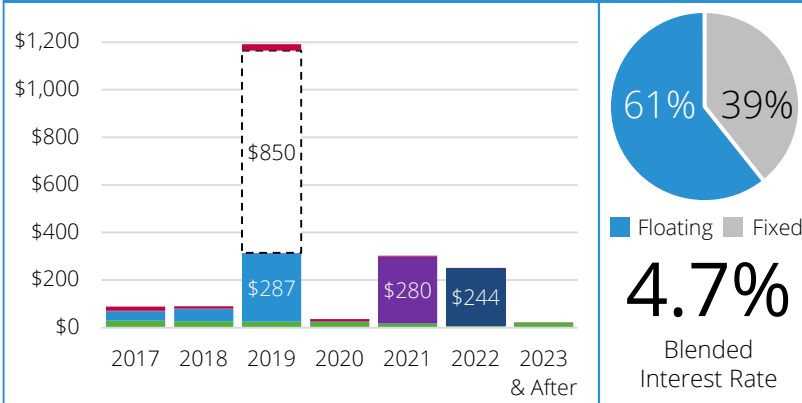
Credit Agreement Extension

- Amended and extended Revolving Credit Facility and Term Loan A by 2 years
- \$725 million Revolving Credit Facility due January 2021 (was April 2019)
- \$375 million Term Loan A due January 2021 (was April 2019)
- No significant changes to pricing, terms, conditions or covenants of credit agreement

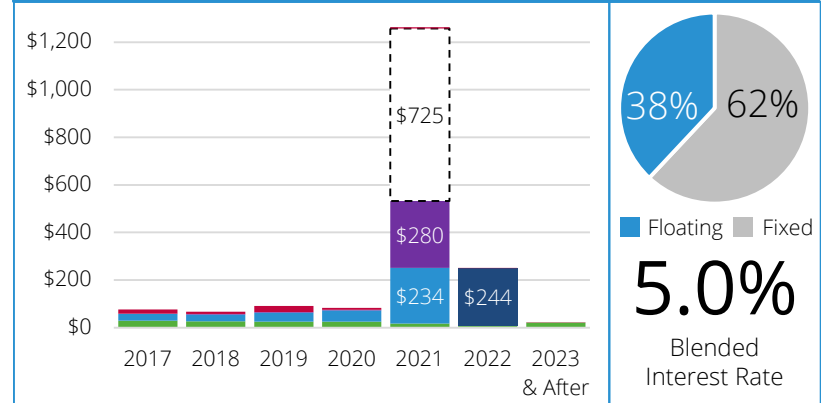
Interest Rate Swap

- Effectively converts \$250 million of the Company's variable-rate debt based on 1M LIBOR to a fixed rate of 3.9%
- Five years maturing on 2/28/2022

December 31, 2016



December 31, 2016 – Pro Forma



■ Master Notes
 ■ Term Loan A
 ■ Term Loan B
 Revolving Credit Facility
 ■ High Yield Bonds
 ■ Other

Locked in **62%** of our debt structure as fixed-rate debt achieving an overall **5% interest rate** and extended maturities **two years** at same terms and covenants



2017 Annual Guidance

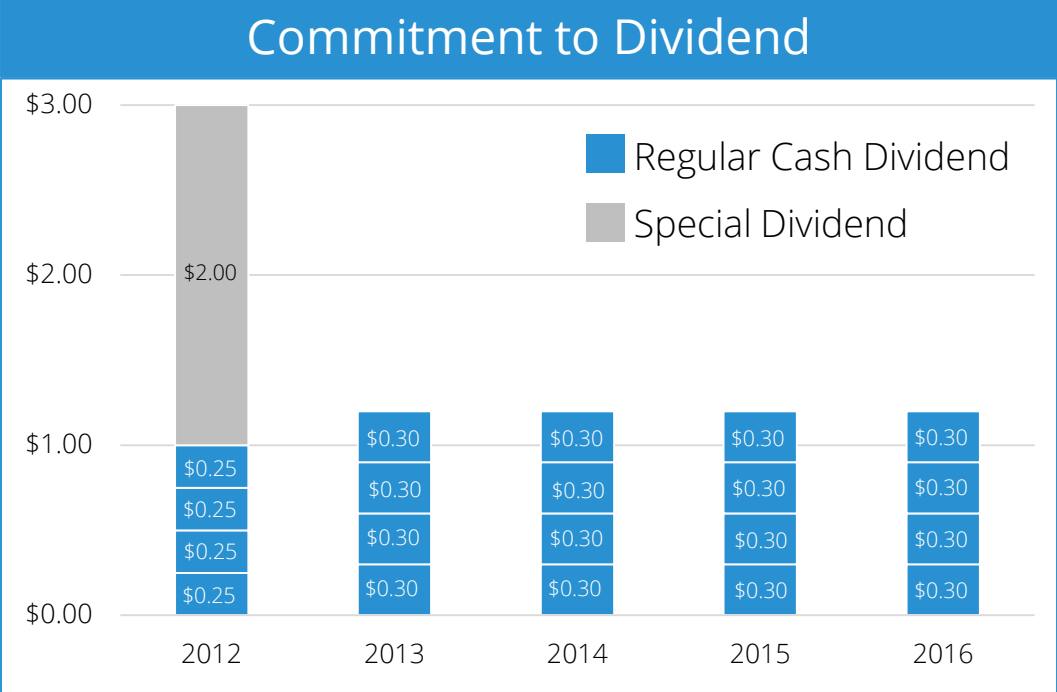
US \$ Millions	2017
Net Sales	\$4.1 to \$4.3 billion
Adjusted EBITDA ⁽¹⁾	\$440 to \$480 million
Free Cash Flow ⁽¹⁾	\$225 to \$275 million
Depreciation and Amortization	\$225 to \$235 million
Interest Expense	\$70 to \$80 million
Restructuring and Transaction-Related Cash Expenses	\$30 to \$40 million
Capital Expenditures	\$75 to \$90 million
Cash Taxes	\$10 to \$20 million
Pension Cash Contributions ⁽²⁾	Approximately \$10 million

(1) See slide 14 for definitions of our non-GAAP measures.

(2) Includes single employer pension plans and multi-employer pension plans.



Shareholder Value



5%
Dividend Yield⁽¹⁾

< 25%
Dividend as % of
Free Cash Flow

Declared dividend of \$0.30 per share to be payable on March 10, 2017, to shareholders of record as of February 27, 2017



(1) Dividend Yield is calculated as an annualized dividend of \$1.20 per share divided by Quad/Graphics closing stock price on February 17, 2017 of \$25.89. 11



For questions contact:
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Supplemental Information

Use of 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/Graphics' performance and are important measures by which Quad/Graphics' 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 15 – 21.
- Adjusted EBITDA is defined as net earnings (loss) plus interest expense, income tax expense (if applicable), depreciation and amortization, restructuring, impairment and transaction-related charges, non-cash goodwill impairment charges, and equity in loss of unconsolidated entities, and less gain on debt extinguishment and income tax benefit (if applicable).
- 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.
- Debt Leverage Ratio is defined as total debt and capital lease obligations divided by the last twelve months of Adjusted EBITDA.
- Adjusted Diluted Earnings (Loss) Per Share is defined as net earnings (loss) excluding restructuring, impairment and transaction-related charges, non-cash goodwill impairment charges, gain on debt extinguishment, equity in loss of unconsolidated entities and discrete income tax items, divided by diluted weighted average number of common shares outstanding.



Adjusted EBITDA

Fourth Quarter (US \$ Millions)

	Three Months Ended December 31,	
	2016	2015
Net earnings (loss)	\$ 37.5	\$ (9.4)
Interest expense	18.3	22.0
Income tax expense (benefit)	7.4	(33.1)
Depreciation and amortization	59.7	79.6
EBITDA [Non-GAAP]	\$ 122.9	\$ 59.1
EBITDA Margin [Non-GAAP]	10.3%	4.5%
Restructuring, impairment and transaction-related charges	18.2	84.9
Goodwill impairment	—	10.0
Equity in (earnings) loss of unconsolidated entities	(0.9)	0.2
Adjusted EBITDA [Non-GAAP]	\$ 140.2	\$ 154.2
Adjusted EBITDA Margin [Non-GAAP]	11.7%	11.7%



Adjusted EBITDA

Full-Year (US \$ Millions)

	Twelve Months Ended December 31,	
	2016	2015
Net earnings (loss)	\$ 44.9	\$ (641.9)
Interest expense	77.2	88.4
Income tax expense (benefit)	13.0	(282.8)
Depreciation and amortization	277.1	325.3
EBITDA [Non-GAAP]	\$ 412.2	\$ (511.0)
EBITDA Margin [Non-GAAP]	9.5%	(11.1)%
Restructuring, impairment and transaction-related charges	80.6	164.9
Goodwill impairment	—	808.3
Gain on debt extinguishment	(14.1)	—
Equity in loss of unconsolidated entities	1.4	6.3
Adjusted EBITDA [Non-GAAP]	\$ 480.1	\$ 468.5
Adjusted EBITDA Margin [Non-GAAP]	11.1%	10.2%



Free Cash Flow

(US \$ Millions)

Net cash provided by operating activities

Less: purchases of property, plant and equipment

Free Cash Flow [Non-GAAP]

Twelve Months Ended December 31,

	2016	2015
	\$ 352.5	\$ 348.1
	(106.1)	(133.0)
	\$ 246.4	\$ 215.1

Debt Leverage Ratio

(US \$ Millions, Except Ratio Data)

Total debt and capital lease obligations on the balance sheets

Divided by: Trailing twelve months Adjusted EBITDA [Non-GAAP]

Debt Leverage Ratio [Non-GAAP]

December 31, 2016	December 31, 2015
\$ 1,130.8	\$ 1,349.3
480.1	468.5
2.36x	2.88x

Balance Sheet

(US \$ Millions)

ASSETS

Cash and cash equivalents

Receivables

Inventories

Other current assets

Property, plant and equipment—net

Other intangible assets

Other long-term assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable

Other current liabilities

Current debt and capital leases

Long-term debt and capital leases

Deferred income taxes

Single and multi-employer pension obligations

Other long-term liabilities

Total liabilities

Shareholders' equity

Total liabilities and shareholders' equity

December 31, 2016

December 31, 2015

\$ 9.0

563.6

265.4

64.6

1,519.9

59.7

87.9

\$ 2,570.1

\$ 10.8

648.7

280.1

51.7

1,675.8

110.5

69.9

\$ 2,847.5

\$ 323.5

346.6

92.1

1,038.7

35.3

162.3

130.1

\$ 2,128.6

\$ 441.5

\$ 2,570.1

\$ 358.8

335.9

99.7

1,249.6

59.0

185.4

135.2

\$ 2,423.6

\$ 423.9

\$ 2,847.5



Adjusted Diluted Earnings Per Share

Fourth Quarter (US \$ Millions, Except Per Share Data)

	Three Months Ended December 31,	
	2016	2015
Earnings (loss) before income taxes and equity in (earnings) loss of unconsolidated entities	\$ 44.0	\$ (42.3)
Restructuring, impairment and transaction-related charges	18.2	84.9
Goodwill impairment	—	10.0
	62.2	52.6
Income tax expense at 40% normalized tax rate	24.9	21.0
Adjusted net earnings [Non-GAAP]	\$ 37.3	\$ 31.6
Basic weighted average number of common shares outstanding	48.7	48.0
Plus: effect of dilutive equity incentive instruments [Non-GAAP]	2.6	0.9
Diluted weighted average number of common shares outstanding [Non-GAAP]	51.3	48.9
Adjusted Diluted Earnings Per Share [Non-GAAP]	\$ 0.73	\$ 0.65
Diluted Earnings (Loss) Per Share [GAAP]	\$ 0.73	\$ (0.20)



Adjusted Diluted Earnings Per Share

Full-Year (US \$ Millions, Except Per Share Data)

	Twelve Months Ended December 31,	
	2016	2015
Earnings (loss) before income taxes and equity in loss of unconsolidated entities	\$ 59.3	\$ (918.4)
Restructuring, impairment and transaction-related charges	80.6	164.9
Goodwill impairment	—	808.3
Gain on debt extinguishment	(14.1)	—
	125.8	54.8
Income tax expense at 40% normalized tax rate	50.3	21.9
Adjusted net earnings [Non-GAAP]	<u>\$ 75.5</u>	<u>\$ 32.9</u>
Basic weighted average number of common shares outstanding	47.9	47.9
Plus: effect of dilutive equity incentive instruments [Non-GAAP]	1.9	1.0
Diluted weighted average number of common shares outstanding [Non-GAAP]	<u>49.8</u>	<u>48.9</u>
Adjusted Diluted Earnings Per Share [Non-GAAP]	<u>\$ 1.52</u>	<u>\$ 0.67</u>
Diluted Earnings (Loss) Per Share [GAAP]	<u>\$ 0.90</u>	<u>\$ (13.40)</u>

