

Quad/Graphics, Inc.

# 4<sup>th</sup> Quarter 2017 Earnings Call



**Joel Quadracci**  
*Chairman, President & CEO*



**Dave Honan**  
*Executive Vice President & CFO*

February 21, 2018

# 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 and potential underutilization of assets; 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 impact of increased business complexity as a result of the Company's transformation into a marketing solutions provider; the impact of regulatory matters and legislative developments or changes in laws, including changes in cyber-security, privacy and environmental laws; 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 attract and retain qualified production personnel; the impact of changes in postal rates, service levels or regulations; the fragility and decline in overall distribution channels, including newspaper distribution channels; 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; significant capital expenditures may be needed to maintain the Company's platform and processes and to remain technologically and economically competitive; the impact of the various restrictive covenants in the Company's debt facilities on the Company's ability to operate its business; 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.





# 2017 Financial Results

**\$4.1 billion**

Net Sales (YTD)

**\$459 million**

Adjusted EBITDA<sup>(1)</sup> (YTD)

**\$258 million**

Free Cash Flow<sup>(1)</sup> (YTD)

**1.99x**

Debt Leverage Ratio<sup>(1)</sup>, net of  
\$54 million of excess cash



Sustainable Free Cash Flow

Drive EBITDA Enhancement

Strengthen the Balance Sheet

Accelerate Quad 3.0 Transformation

Provide Long Term Shareholder Returns

(1) See slides 15 – 22 for definitions and reconciliations of non-GAAP measures.

# 3.0 Continued Multi-channel Transformation

PRODUCTION SERVICES    PROCESS OPTIMIZATION    PRINT MANAGEMENT    CAMPAIGN CREATION & INTEGRATION    CREATIVE, PHOTO & VIDEO    MOBILE    DIGITAL MEDIA & MARKETING

Leverage strong print foundation to deliver an integrated marketing platform that creates greater value for all

# 2.0 Industry Consolidator

COMMERCIAL    DIRECTORY    INSTORE    PACKAGING    IMAGING    DIRECT MARKETING    BOOK    MEDIA PLANNING & PLACEMENT

Acquisitions helped expand our offering & improve efficiencies

# 1.0 Foundational Growth

MAGAZINE    CATALOG    RETAIL INSERTS    LOGISTICS

A strong foundation & culture that continues today

# Quad Will Continue to Evolve



## Build

BlueSoHo®

Invest in  
Experienced  
Marketing Talent in  
Multiple Verticals



## Partner

rise  
interactive®

Expertise Fills  
Identified Gaps in  
Our Offering



## Acquire

Ivie®

Creates Unmatched  
Marketing Solutions  
Offering

 Strategic Approach to Transformation



This business combination creates a powerful marketing solution, at mass scale, that addresses client's increasing need for improved process efficiency and marketing spend effectiveness.



## Combination Creates Powerful Marketing Solution

### Onsite Marketing Services

MORE THAN  
**1,200** PROFESSIONALS  
**70+** CLIENT LOCATIONS

### Traditional Agency Roles

### Integrated Execution

PRINT



DIGITAL

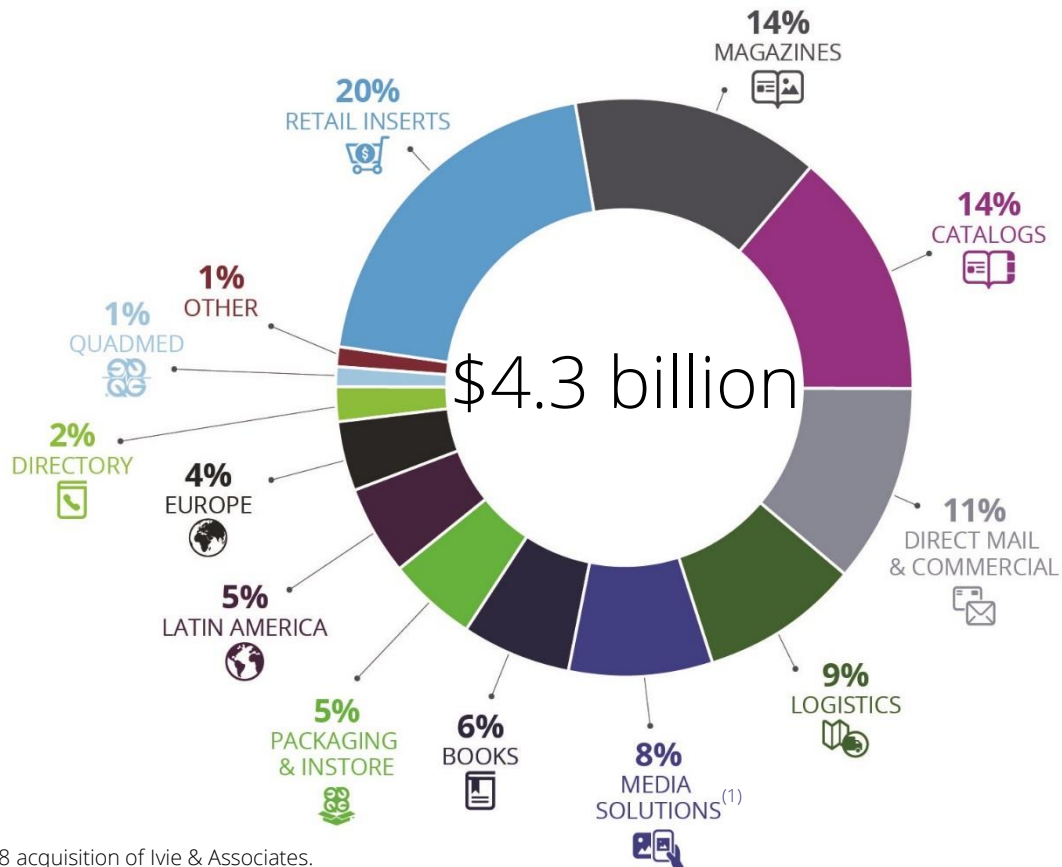
### Marketing Execution of Creative Assets

### Expanded Subject Matter Expertise

- Onsite
- Creative
- Digital
- Fulfillment
- Production
- Media
- Sourcing
- Studios
- Comms



# 2017 Pro Forma Net Sales by Category<sup>(1)</sup>



(1) Reflects the February 21, 2018 acquisition of Ivie & Associates.

# Financial Overview

(\$ in millions)	Fourth Quarter		Year-to-Date	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
<b>Statement of Operations</b>				
Net Sales	\$ 1,164.2	\$ 1,198.3	\$ 4,131.4	\$ 4,329.5
Cost of Sales	928.5	945.4	3,259.4	3,394.8
SG&A	110.8	112.7	413.4	454.6
Adjusted EBITDA <sup>(1)</sup>	\$ 124.9	\$ 140.2	\$ 458.6	\$ 480.1
Adjusted EBITDA Margin <sup>(1)</sup>	10.7%	11.7%	11.1%	11.1%
<b>Statement of Cash Flows</b>				
Cash from Operating Activities			\$ 344.0	\$ 352.5
Capital Expenditures			(85.9)	(106.1)
Free Cash Flow <sup>(1)</sup>			\$ 258.1	\$ 246.4

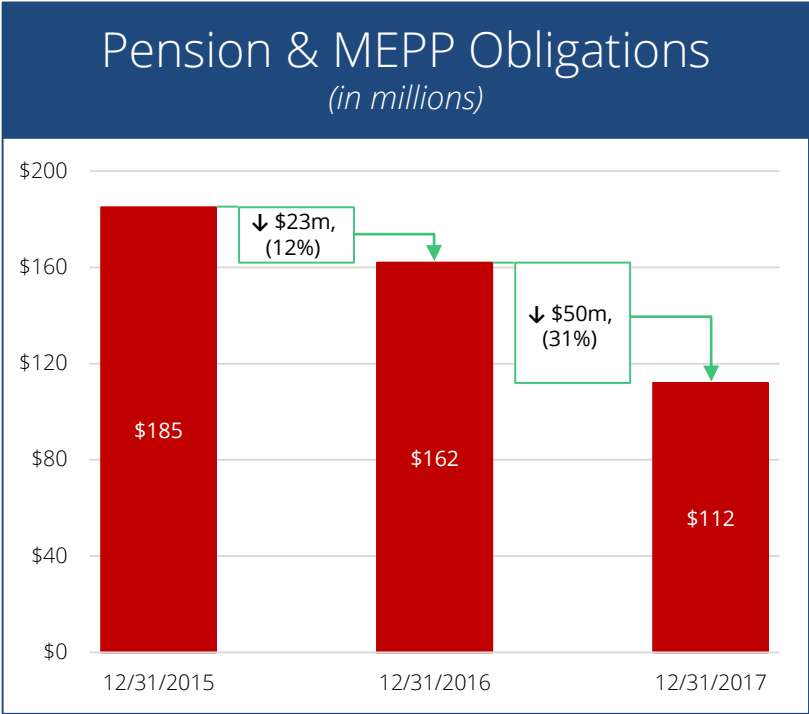
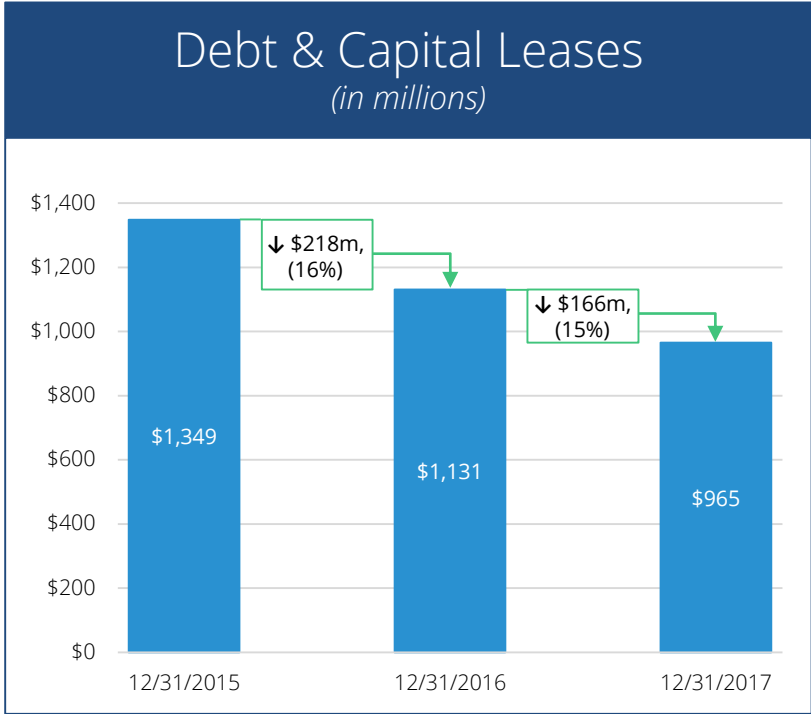
Q4 and YTD 2017 results were in line with our expectations and guidance.

(1) See slide 15 for definitions of our non-GAAP measures and slides 16 and 17 for reconciliations of Adjusted EBITDA and Adjusted EBITDA Margin and slide 18 for a reconciliation of Free Cash Flow as non-GAAP measures.





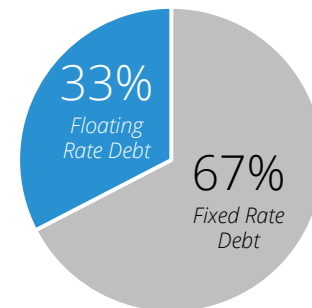
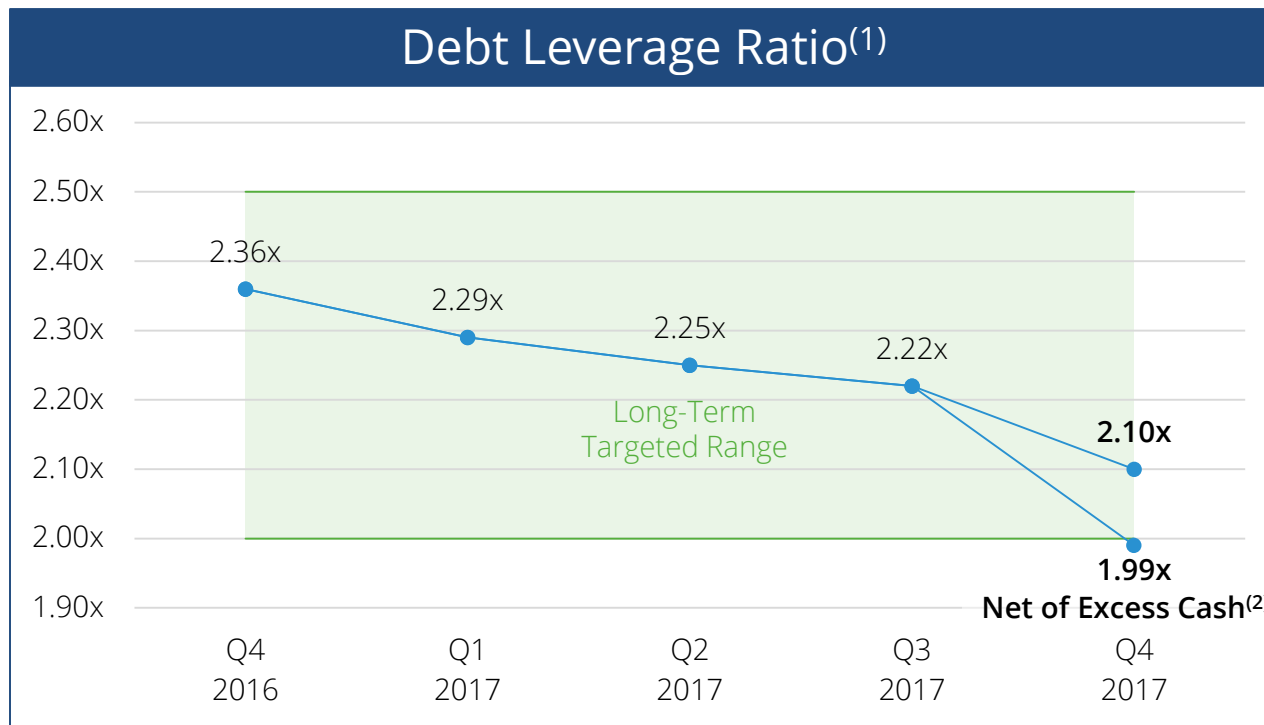
# Debt & Pension Obligations



Since December of 2015 Quad has reduced debt and pension obligations by over \$450 million, or by approximately 1/3



# Capital Structure as of December 31, 2017



**5.2%**  
Blended Interest Rate

**\$686 million**  
Available Liquidity Under Revolver

**January 2021**  
Next Significant Maturity

(1) See slide 15 for definitions of our non-GAAP measures and slide 19 for a reconciliation of Debt Leverage Ratio as a non-GAAP measure.

(2) The Company had \$64 million in cash at December 31, 2017, \$54 million higher than the Company's typical year end cash balance of approximately \$10 million. This net leverage value of 1.99x assumes that the \$54 million of excess cash was used to further pay down debt.



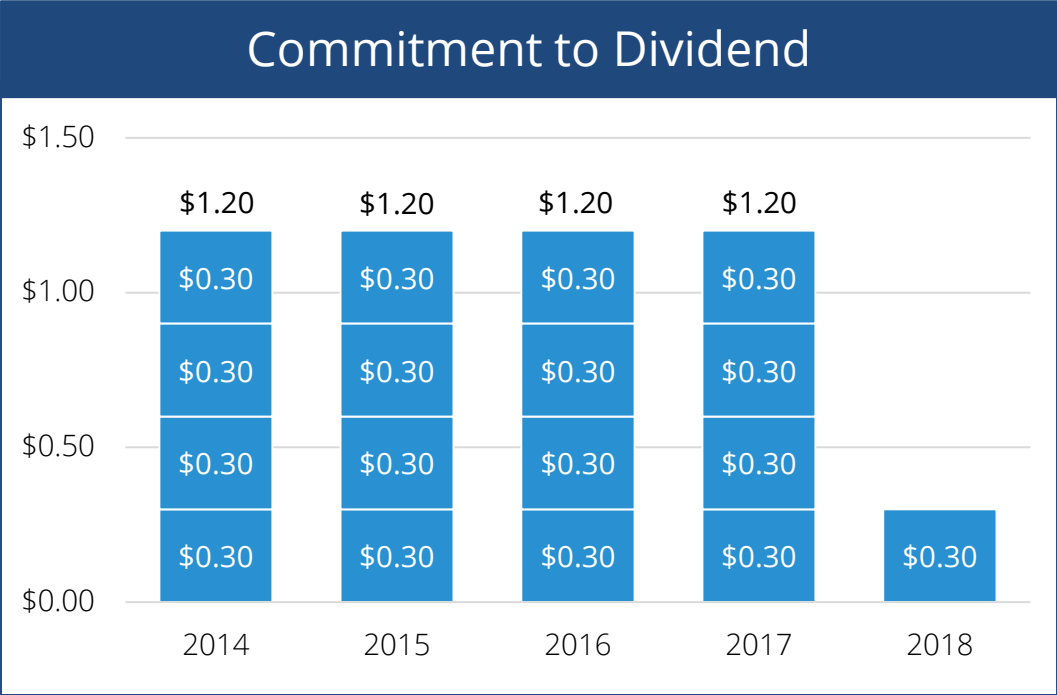
# 2018 Annual Guidance

US \$ Millions	2018
Net Sales <sup>(1)</sup>	\$4.0 to \$4.2 billion
Adjusted EBITDA <sup>(1)(2)(3)</sup>	\$410 to \$450 million
Free Cash Flow <sup>(3)</sup>	\$200 to \$240 million
Depreciation and Amortization	\$215 to \$225 million
Interest Expense	\$65 to \$75 million
Restructuring and Transaction-Related Cash Expenses	\$35 to \$45 million
Capital Expenditures	\$85 to \$95 million
Pension Cash Contributions <sup>(4)</sup>	Approximately \$15 million
Cash Taxes	\$15 to \$25 million

- (1) The acquisition of Ivie announced on February 21, 2018, is expected to contribute approximately \$150 million of net sales and \$10 million of Adjusted EBITDA in 2018.
- (2) Adjusted EBITDA guidance excludes non-cash pension income in 2018 due to new accounting standards that require pension income to be excluded from Operating Income. As a result, 2017 Adjusted EBITDA has also been adjusted down to \$448 million to remove \$11 million of pension income, allowing for consistent presentation.
- (3) See slide 15 for definitions of our non-GAAP measures.
- (4) Includes single employer pension plans and multi-employer pension plans.



# Shareholder Value



5%  
*Dividend Yield<sup>(1)</sup>*

28%  
*Dividend as % of  
Free Cash Flow*

Declared dividend of \$0.30 per share to be payable on March 30, 2018, to shareholders of record as of March 19, 2018.



(1) Dividend Yield is calculated as an annualized dividend of \$1.20 per share divided by Quad/Graphics closing stock price on February 20, 2018 of \$22.05. 12



For questions contact:  
Kyle Egan – IR@qg.com

# 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 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 16 – 22.
- Adjusted EBITDA is defined as net earnings (loss) excluding interest expense, income tax expense (benefit), depreciation and amortization, restructuring, impairment and transaction-related charges, loss (gain) on debt extinguishment, and equity in (earnings) loss of unconsolidated entity.
- 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 Per Share is defined as net earnings (loss) excluding restructuring, impairment and transaction-related charges, loss (gain) on debt extinguishment, equity in (earnings) loss of unconsolidated entity 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,	
	2017	2016
Net earnings	\$ 55.3	\$ 37.5
Interest expense	17.5	18.3
Income tax (benefit) expense	(42.8)	7.4
Depreciation and amortization	57.0	59.7
EBITDA [Non-GAAP]	\$ 87.0	\$ 122.9
EBITDA Margin [Non-GAAP]	7.5%	10.3%
Restructuring, impairment and transaction-related charges	38.7	18.2
Equity in earnings of unconsolidated entity	(0.8)	(0.9)
<b>Adjusted EBITDA [Non-GAAP]</b>	<b>\$ 124.9</b>	<b>\$ 140.2</b>
<b>Adjusted EBITDA Margin [Non-GAAP]</b>	<b>10.7%</b>	<b>11.7%</b>





# Adjusted EBITDA

*Year-to-Date (US \$ Millions)*

	<b>Twelve Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Net earnings	\$ 107.2	\$ 44.9
Interest expense	71.1	77.2
Income tax (benefit) expense	(16.0)	13.0
Depreciation and amortization	232.5	277.1
EBITDA [Non-GAAP]	\$ 394.8	\$ 412.2
EBITDA Margin [Non-GAAP]	9.6%	9.5%
Restructuring, impairment and transaction-related charges	61.2	80.6
Loss (gain) on debt extinguishment	2.6	(14.1)
Equity in loss of unconsolidated entity	—	1.4
<b>Adjusted EBITDA [Non-GAAP]</b>	<b>\$ 458.6</b>	<b>\$ 480.1</b>
<b>Adjusted EBITDA Margin [Non-GAAP]</b>	<b>11.1%</b>	<b>11.1%</b>



# 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,**

	<b>2017</b>	<b>2016</b>
	\$ 344.0	\$ 352.5
	(85.9)	(106.1)
	<b>\$ 258.1</b>	<b>\$ 246.4</b>



# Debt Leverage Ratio

*(US \$ Millions, Except Ratio Data)*

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total debt and capital lease obligations on the balance sheets	\$ 964.8	\$ 1,130.8
Divided by: Trailing twelve months Adjusted EBITDA [Non-GAAP]	<u>458.6</u>	<u>480.1</u>
<b>Debt Leverage Ratio [Non-GAAP]<sup>(1)</sup></b>	<b><u>2.10x</u></b>	<b><u>2.36x</u></b>

(1) The Company had \$64 million in cash at December 31, 2017, \$54 million higher than the Company's typical year end cash balance of approximately \$10 million. The Debt Leverage Ratio would have been 1.99x if the \$54 million of excess cash was used to further pay down debt at December 31, 2017.

# Balance Sheet

(US \$ Millions)

## ASSETS

Cash and cash equivalents

Receivables

Inventories

Other current assets

Property, plant and equipment—net

Intangible assets—net

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, 2017

December 31, 2016

\$ 64.3

552.5

246.5

45.2

1,377.6

43.4

122.9

**\$ 2,452.4**

\$ 9.0

563.6

265.4

64.6

1,519.9

59.7

87.9

**\$ 2,570.1**

\$ 381.6

306.2

47.6

917.2

41.9

112.3

123.2

**\$ 1,930.0**

**\$ 522.4**

**\$ 2,452.4**

\$ 323.5

346.6

92.1

1,038.7

35.3

162.3

130.1

**\$ 2,128.6**

**\$ 441.5**

**\$ 2,570.1**



# Adjusted Diluted Earnings Per Share

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

	Three Months Ended December 31,	
	2017	2016
Earnings before income taxes and equity in earnings of unconsolidated entity	\$ 11.7	\$ 44.0
Restructuring, impairment and transaction-related charges	38.7	18.2
	50.4	62.2
Income tax expense at 40% normalized tax rate <sup>(1)</sup>	20.2	24.9
Adjusted net earnings [Non-GAAP]	\$ 30.2	\$ 37.3
Basic weighted average number of common shares outstanding	50.1	48.7
Plus: effect of dilutive equity incentive instruments	2.2	2.6
Diluted weighted average number of common shares outstanding	52.3	51.3
<b>Adjusted Diluted Earnings Per Share [Non-GAAP]</b>	<b>\$ 0.58</b>	<b>\$ 0.73</b>
Diluted Earnings Per Share [GAAP]	\$ 1.06	\$ 0.73

(1) Normalized income tax rate of 40% does not reflect any changes related to the Tax Cuts and Jobs Act that was enacted in December 2017. The Company plans to change its normalized rate in the first quarter of 2018.



# Adjusted Diluted Earnings Per Share

*Year-to-Date (US \$ Millions, Except Per Share Data)*

	Twelve Months Ended September 30,	
	2017	2016
Earnings before income taxes and equity in loss of unconsolidated entity	\$ 91.2	\$ 59.3
Restructuring, impairment and transaction-related charges	61.2	80.6
Loss (gain) on debt extinguishment	2.6	(14.1)
	155.0	125.8
Income tax expense at 40% normalized tax rate <sup>(1)</sup>	62.0	50.3
Adjusted net earnings [Non-GAAP]	\$ 93.0	\$ 75.5
Basic weighted average number of common shares outstanding	49.6	47.9
Plus: effect of dilutive equity incentive instruments	2.2	1.9
Diluted weighted average number of common shares outstanding	51.8	49.8
<b>Adjusted Diluted Earnings Per Share [Non-GAAP]</b>	<b>\$ 1.80</b>	<b>\$ 1.52</b>
Diluted Earnings Per Share [GAAP]	\$ 2.07	\$ 0.90

(1) Normalized income tax rate of 40% does not reflect any changes related to the Tax Cuts and Jobs Act that was enacted in December 2017. The Company plans to change its normalized rate in the first quarter of 2018.

