

Quad/Graphics, Inc.

3rd Quarter 2017 Earnings Call



Joel Quadracci
Chairman, President & CEO



Dave Honan
Executive Vice President & CFO

November 1, 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.



3rd Quarter 2017 Results

\$1.0 billion

Net Sales (QTD)

\$116 million

Adjusted EBITDA⁽¹⁾ (QTD)

\$118 million

Free Cash Flow⁽¹⁾ (YTD)

2.22x

Debt Leverage Ratio⁽¹⁾



(1) See slides 10 — 17 for definitions and reconciliations of non-GAAP measures.

Creating a Better Way

Sustainable Free Cash Flow

Drive EBITDA Enhancement

Strengthen the Balance Sheet

Accelerate Quad 3.0 Transformation

Provide Long Term Shareholder Returns

Financial Overview

(\$ in millions)	Third Quarter		Year-to-Date	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Statement of Operations				
Net Sales	\$ 1,005.4	\$ 1,056.4	\$ 2,967.2	\$ 3,131.2
Cost of Sales	784.8	824.9	2,330.9	2,449.4
SG&A	104.9	109.9	302.6	341.9
Adjusted EBITDA ⁽¹⁾	\$ 115.7	\$ 121.6	\$ 333.7	\$ 339.9
Adjusted EBITDA Margin ⁽¹⁾	11.5%	11.5%	11.2%	10.9%
Statement of Cash Flows				
Cash from Operating Activities			\$ 179.7	\$ 260.0
Capital Expenditures			(61.6)	(57.7)
Free Cash Flow ⁽¹⁾			\$ 118.1	\$ 202.3

Q3 2017 results were in line with our expectations.

(1) See slide 10 for definitions of our non-GAAP measures and slides 11 and 12 for reconciliations of Adjusted EBITDA and Adjusted EBITDA Margin and slide 13 for a reconciliation of Free Cash Flow as non-GAAP measures.

2017 Annual Guidance

US \$ Millions	2017 <i>(Previous)</i>	2017 <i>(Narrowed)</i>
Net Sales	\$4.1 to \$4.3 billion	Approximately \$4.1 billion
Adjusted EBITDA ⁽¹⁾	\$440 to \$480 million	\$450 to \$470 million
Free Cash Flow ⁽¹⁾	\$225 to \$275 million	\$240 to \$260 million
Depreciation and Amortization	\$225 to \$235 million	No change
Interest Expense	\$70 to \$80 million	\$70 to \$75 million
Restructuring and Transaction-Related Cash Expenses	\$30 to \$40 million	No change
Capital Expenditures	\$75 to \$90 million	No change
Cash Taxes	\$10 to \$20 million	\$5 to \$10 million
Pension Cash Contributions ⁽²⁾	Approximately \$10 million	Approximately \$25 million

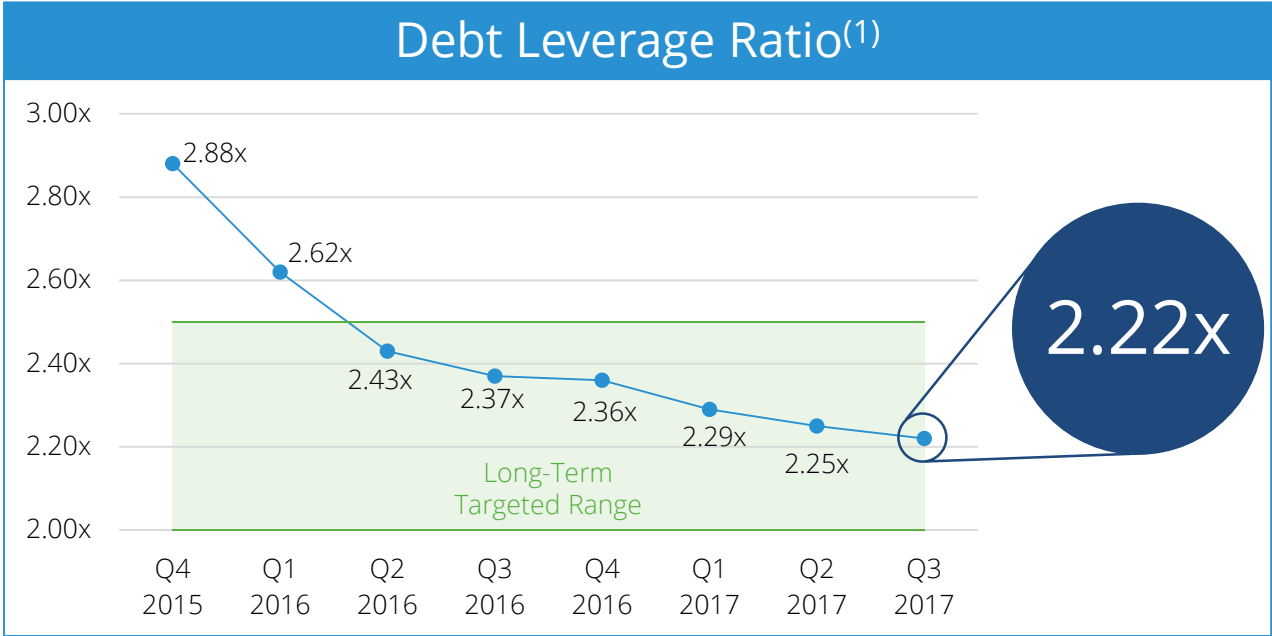
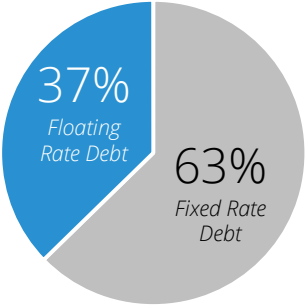
(1) See slide 10 for definitions of our non-GAAP measures.

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



Capital Structure as of September 30, 2017

\$295 million, or 22%, reduction of debt since December 2015



5.1%
Blended Interest Rate

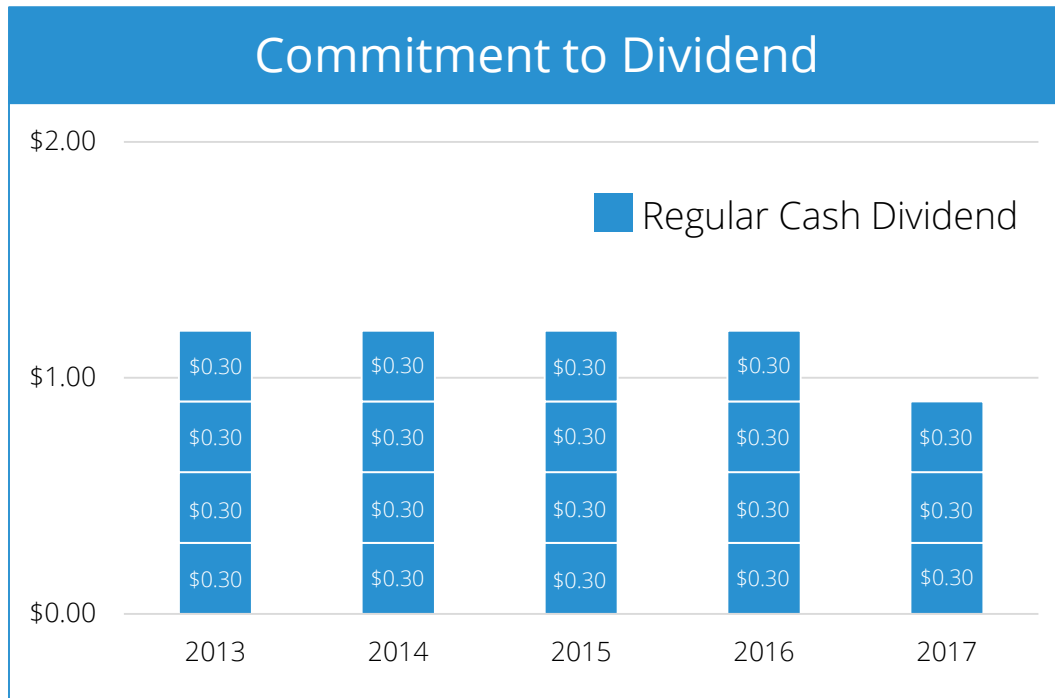
\$686 million
Available Liquidity Under Revolver

January 2021
Next Significant Maturity



(1) See slide 10 for definitions of our non-GAAP measures and slide 14 for a reconciliation of Debt Leverage Ratio as a non-GAAP measure.

Shareholder Value



5%
Dividend Yield⁽¹⁾

25%
*Dividend as % of
Free Cash Flow*

Declared dividend of \$0.30 per share to be payable on December 1, 2017,
to shareholders of record as of November 20, 2017



(1) Dividend Yield is calculated as an annualized dividend of \$1.20 per share divided by Quad/Graphics closing stock price on October 30, 2017 of \$21.98.



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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 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 11 – 17.
- 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 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 loss of unconsolidated entity and discrete income tax items, divided by diluted weighted average number of common shares outstanding.



Adjusted EBITDA

Third Quarter (US \$ Millions)

	Three Months Ended September 30,	
	2017	2016
Net earnings	\$ 19.8	\$ 11.3
Interest expense	17.8	19.6
Income tax expense	11.8	2.9
Depreciation and amortization	58.3	61.7
EBITDA [Non-GAAP]	\$ 107.7	\$ 95.5
EBITDA Margin [Non-GAAP]	10.7%	9.0%
Restructuring, impairment and transaction-related charges	8.0	26.1
Equity in loss of unconsolidated entity	—	—
Adjusted EBITDA [Non-GAAP]	\$ 115.7	\$ 121.6
Adjusted EBITDA Margin [Non-GAAP]	11.5%	11.5%

Adjusted EBITDA

Year-to-Date (US \$ Millions)

	Nine Months Ended September 30,	
	2017	2016
Net earnings	\$ 51.9	\$ 7.4
Interest expense	53.6	58.9
Income tax expense	26.8	5.6
Depreciation and amortization	175.5	217.4
EBITDA [Non-GAAP]	\$ 307.8	\$ 289.3
EBITDA Margin [Non-GAAP]	10.4%	9.2%
Restructuring, impairment and transaction-related charges	22.5	62.4
Loss (gain) on debt extinguishment	2.6	(14.1)
Equity in loss of unconsolidated entity	0.8	2.3
Adjusted EBITDA [Non-GAAP]	\$ 333.7	\$ 339.9
Adjusted EBITDA Margin [Non-GAAP]	11.2%	10.9%



Free Cash Flow

(US \$ Millions)

Net cash provided by operating activities

Less: purchases of property, plant and equipment

Free Cash Flow [Non-GAAP]

Nine Months Ended September 30,

2017

2016

\$ 179.7

\$ 260.0

(61.6)

(57.7)

\$ 118.1

\$ 202.3



Debt Leverage Ratio

(US \$ Millions, Except Ratio Data)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Total debt and capital lease obligations on the balance sheets	\$ 1,054.2	\$ 1,130.8
Divided by: Trailing twelve months Adjusted EBITDA [Non-GAAP]	<u>473.9</u>	<u>480.1</u>
Debt Leverage Ratio [Non-GAAP]	<u>2.22x</u>	<u>2.36x</u>

(1) The calculation of Adjusted EBITDA for the trailing twelve months ended September 30, 2017 and December 31, 2016, was as follows:

	Year Ended <u>December 31, 2016</u>	Nine Months Ended		Trailing Twelve Months Ended <u>September 30, 2017</u>
		Add <u>September 30, 2017</u>	Subtract <u>September 30, 2016</u>	
Net earnings	\$ 44.9	\$ 51.9	\$ 7.4	\$ 89.4
Interest expense	77.2	53.6	58.9	71.9
Income tax expense	13.0	26.8	5.6	34.2
Depreciation and amortization	<u>277.1</u>	<u>175.5</u>	<u>217.4</u>	<u>235.2</u>
EBITDA [Non-GAAP]	\$ 412.2	\$ 307.8	\$ 289.3	\$ 430.7
Restructuring, impairment and transaction-related charges	80.6	22.5	62.4	40.7
Loss (gain) on debt extinguishment	(14.1)	2.6	(14.1)	2.6
Equity in loss (gain) of unconsolidated entity	<u>1.4</u>	<u>0.8</u>	<u>2.3</u>	<u>(0.1)</u>
Adjusted EBITDA [Non-GAAP]	<u>\$ 480.1</u>	<u>\$ 333.7</u>	<u>\$ 339.9</u>	<u>\$ 473.9</u>



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

September 30, 2017

December 31, 2016

\$ 15.4

542.0

308.0

42.7

1,427.4

47.8

94.1

\$ 2,477.4

\$ 344.5

303.8

73.0

981.2

50.7

136.6

121.6

\$ 2,011.4

\$ 466.0

\$ 2,477.4

\$ 9.0

563.6

265.4

64.6

1,519.9

59.7

87.9

\$ 2,570.1

\$ 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

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

Earnings before income taxes and equity in loss of unconsolidated entity

Restructuring, impairment and transaction-related charges

Income tax expense at 40% normalized tax rate

Adjusted net earnings [Non-GAAP]

Basic weighted average number of common shares outstanding

Plus: effect of dilutive equity incentive instruments [Non-GAAP]

Diluted weighted average number of common shares outstanding [Non-GAAP]

Adjusted Diluted Earnings Per Share [Non-GAAP]

Diluted Earnings Per Share [GAAP]

Three Months Ended September 30,

	2017	2016
	\$ 31.6	\$ 14.2
	8.0	26.1
	39.6	40.3
	15.8	16.1
	\$ 23.8	\$ 24.2
	49.5	47.8
	2.0	2.8
	51.5	50.6
	\$ 0.46	\$ 0.48
	\$ 0.38	\$ 0.22



Adjusted Diluted Earnings Per Share

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

Earnings before income taxes and equity in loss of unconsolidated entity

Restructuring, impairment and transaction-related charges

Loss (gain) on debt extinguishment

Income tax expense at 40% normalized tax rate

Adjusted net earnings [Non-GAAP]

Basic weighted average number of common shares outstanding

Plus: effect of dilutive equity incentive instruments [Non-GAAP]

Diluted weighted average number of common shares outstanding [Non-GAAP]

Adjusted Diluted Earnings Per Share [Non-GAAP]

Diluted Earnings Per Share [GAAP]

	Nine Months Ended September 30,	
	2017	2016
	\$ 79.5	\$ 15.3
	22.5	62.4
	2.6	(14.1)
	104.6	63.6
	41.8	25.4
	\$ 62.8	\$ 38.2
	49.4	47.6
	2.2	1.7
	51.6	49.3
	\$ 1.22	\$ 0.77
	\$ 1.01	\$ 0.15

