



RR Donnelley Reports Third-Quarter 2009 Results

Nov 04, 2009

CHICAGO, Nov 04, 2009 (BUSINESS WIRE) -- Highlights:

- Third-quarter 2009 GAAP net earnings from continuing operations attributable to common shareholders of \$13.1 million or \$0.06 per diluted share vs. \$168.2 million or \$0.80 per diluted share in the third quarter of 2008
- Third-quarter 2009 non-GAAP net earnings attributable to common shareholders of \$111.9 million or \$0.54 per diluted share compared to \$183.2 million or \$0.87 per diluted share in the third quarter of 2008
- Year-to-date operating cash flow of \$1.1 billion, an increase of \$406.8 million from the first nine months of 2008

R.R. Donnelley & Sons Company (NASDAQ: RRD) today reported third-quarter net earnings from continuing operations attributable to common shareholders of \$13.1 million or \$0.06 per diluted share on net sales of \$2.5 billion compared to net earnings from continuing operations attributable to common shareholders of \$168.2 million or \$0.80 per diluted share on net sales of \$2.9 billion in the third quarter of 2008. The third-quarter net earnings from continuing operations attributable to common shareholders included pre-tax charges for restructuring (\$129.7 million) and impairment (\$2.0 million) totaling \$131.7 million and acquisition expenses of \$0.1 million in 2009 and for restructuring (\$22.9 million) and impairment (\$0.5 million) totaling \$23.4 million in 2008. Substantially all of the restructuring and impairment charges in the third quarter of 2009 were associated with the previously reported termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment. In the third quarter of 2008, substantially all of the restructuring and impairment charges were related to the reorganization of certain operations and the exiting of certain business activities.

The company believes that certain non-GAAP measures, when presented in conjunction with comparable GAAP (Generally Accepted Accounting Principles) measures, are useful because that information is an appropriate measure for evaluating the company's operating performance. Internally, the company uses this non-GAAP information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

Non-GAAP net earnings attributable to common shareholders totaled \$111.9 million or \$0.54 per diluted share in the third quarter of 2009 compared to \$183.2 million or \$0.87 per diluted share in the third quarter of 2008. Third-quarter non-GAAP net earnings attributable to common shareholders exclude restructuring and impairment charges for both years, as well as losses related to debt extinguishment and acquisition-related expenses in 2009. For non-GAAP comparison purposes, the effective tax rate decreased to 31.3% in the third quarter of 2009 from 32.3% in the third quarter of 2008, primarily due to a change in the mix of earnings across tax jurisdictions. A reconciliation of GAAP net earnings attributable to common shareholders to non-GAAP net earnings attributable to common shareholders is presented in the attached tables.

"Although demand in most of the end-markets we serve remains challenged by economic conditions, we saw continued stabilization and achieved modest sequential revenue growth over the second quarter, in line with our expectations," said Thomas J. Quinlan III, RR Donnelley's President and Chief Executive Officer. "We expect a sequential revenue growth rate in the low single digits in the fourth quarter."

Quinlan added, "Our strong cash flow has enabled us to reduce our debt by nearly \$1 billion over the past twelve months. As the credit markets improved, we enhanced our already strong maturity profile through our recent issuance of debt maturing in 2016 and successful tenders for debt maturities in 2010 and 2012."

Business Review (Continuing Operations)

The company reports its results in two reportable segments: 1) U.S. Print and Related Services and 2) International. The company reports as Corporate its unallocated expenses associated with general and administrative activities.

Summary

Net sales in the quarter were \$2.5 billion, down 14.0% from the third quarter of 2008, including a 1.8% negative impact from changes in foreign exchange rates. The remaining decrease was caused by volume declines and continued price pressures across most products and services. Gross margin decreased to 25.2% in the third quarter of 2009 from 27.0% in the third quarter of 2008 due to volume and price declines, higher variable compensation expense and lower pricing on by-products recoveries, offset in part by the benefits of our continued productivity efforts, a lower LIFO inventory provision and fees received for the transition of a customer contract. SG&A expense as a percentage of net sales in the third quarter of 2009 increased to 10.2% from 9.8% in the third quarter of 2008 due to higher variable compensation expense that more than offset the benefits of productivity efforts. Operating margin, which was negatively impacted by charges for restructuring and impairment of \$131.7 million in the third quarter of 2009 and \$23.4 million in the third quarter of 2008, decreased to 3.8% in the third quarter of 2009 from 10.7% in the third quarter of 2008.

Excluding charges for restructuring and impairment and acquisition expenses, our non-GAAP operating margin in the third quarter of 2009 decreased to 9.1% from 11.5% in the third quarter of 2008, as the benefits from our productivity efforts and fees received for the transition of a customer contract, unrelated to the previously reported termination of a significant long-term customer contract, were more than offset by volume and price declines and a \$77.3 million increase in variable compensation expense. This increase in variable compensation, a \$39.9 million expense in the third quarter of 2009, compared to an expense reversal of \$37.4 million in the third quarter of 2008, accounts for approximately 300 basis points of the decline in our non-GAAP operating margin.

Segments

Net sales for the U.S. Print and Related Services segment in the quarter decreased 14.9% to \$1.8 billion from the third quarter of 2008 due to volume and price declines across all products and services. The segment's operating margin, which was negatively impacted by charges for restructuring and impairment of \$3.6 million in the third quarter of 2009 and \$16.7 million in the third quarter of 2008, decreased to 9.0% in the third quarter of 2009 from 13.4% in the third quarter of 2008. Excluding restructuring and impairment charges, the segment's non-GAAP operating margin decreased to 9.2% in the third quarter of 2009 from 14.2% in the third quarter of 2008, as the impact of volume and price declines, higher variable compensation expense and lower by-products recoveries was only partially offset by the benefits of continued productivity efforts.

Net sales for the International segment in the quarter decreased 11.5% to \$638.3 million from the third quarter of 2008, including a 7.0% negative impact from changes in foreign exchange rates. The remaining decrease was caused by volume and price declines across most product lines, partially offset by fees received for the transition of a customer contract. The segment's operating margin, which was negatively impacted by charges for restructuring and impairment of \$127.3 million in the third quarter of 2009 and \$5.0 million in the third quarter of 2008, decreased to a loss of 11.3% in the third quarter of 2009 from 8.4% in the third quarter of 2008. Excluding restructuring and impairment charges, the segment's non-GAAP operating margin decreased to 8.6% in the third quarter of 2009 from 9.1% in the third quarter of 2008 due to the impact of price and volume declines, as well as higher variable compensation expense, partially offset by the benefits of continued productivity efforts, fees related to the transition of a customer contract and lower intangible amortization expense.

Unallocated Corporate operating income increased to \$0.8 million in the third quarter of 2009 as compared to operating expense of \$42.4 million in the third quarter of 2008. Excluding restructuring charges of \$0.8 million and acquisition expenses of \$0.1 million in the third quarter of 2009 and restructuring charges of \$1.7 million in the second quarter of 2008, Corporate operating income increased \$42.4 million to \$1.7 million in the third quarter of 2009. Approximately 70% of the increase in operating income was due to favorability in certain unallocated corporate expenses, primarily related to a lower LIFO inventory provision and lower employee benefits-related costs, partially offset by higher variable compensation expense. The remainder of the increase in operating income was due to lower costs across most of the corporate functional areas.

Conference Call

RR Donnelley will host a conference call and simultaneous webcast to discuss its third-quarter results today, Wednesday, November 4, at 10:00 a.m. Eastern Time (9:00 a.m. Central Time). The live webcast will be accessible on RR Donnelley's web site: www.rrdonnelley.com. Individuals wishing to participate can join the conference call by dialing 706.634.1139. A webcast replay will be archived on the Company's web site for 30 days after the call. In addition, a telephonic replay of the call will be available for seven days at 706.645.9291, passcode 34550178.

About RR Donnelley

RR Donnelley (NASDAQ: RRD) is a global provider of integrated communications. Founded more than 145 years ago, the company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, enhance ROI and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing services to leading clients in virtually every private and public sector.

For more information, and for RR Donnelley's Corporate Social Responsibility Report, visit the company's web site at <http://www.rrdonnelley.com>.

Use of Forward-Looking Statements

This news release contains "forward-looking statements" as defined in the U.S. Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements and any such forward-looking statements are qualified in their entirety by reference to the following cautionary statements. All forward-looking statements speak only as of the date of this news release and are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause the actual results to differ materially from such forward-looking statements. The company does not undertake to and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events. The factors that could cause material differences in the expected results of RR Donnelley include, without limitation, the following: the successful execution and integration of acquisitions and the performance of the company's businesses following acquisitions; the ability to implement comprehensive plans for the integration of the sales force, cost containment, asset rationalization and other key strategies; competitive pressures in all markets in which the company operates; the volatility and disruption of the capital and credit markets, and adverse changes in the global economy; our ability to access unsecured debt in the capital markets and the reliability of the participants to our contractual lending and insurance agreements; factors that affect customer demand, including changes in postal rates and postal regulations, changes in the capital markets, changes in advertising markets, the rate of migration from paper-based forms to digital format, customers' budgetary constraints and customers' changes in short-range and long-range plans; customers financial strength; shortages or changes in availability, or increases in costs of, key materials (such as ink, paper and fuel); and other risks and uncertainties described in RR Donnelley's periodic filings with the Securities and Exchange Commission (SEC). Readers are strongly encouraged to read the full cautionary statements contained in RR Donnelley's filings with the SEC.

R. R. Donnelley & Sons Company
Condensed Consolidated Balance Sheets
As of September 30, 2009 and December 31, 2008
(UNAUDITED)
(In millions, except per share data)

	September 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 414.9	\$ 324.0
Restricted cash equivalents	-	7.9
Receivables, less allowance for doubtful accounts	1,772.4	1,903.2
Income taxes receivable	51.6	189.4
Inventories	563.1	695.7
Prepaid expenses and other current assets	104.7	104.6
Deferred income taxes	59.7	56.2
Total Current Assets	2,966.4	3,281.0
Property, plant and equipment - net	2,332.7	2,564.0
Goodwill	2,457.9	2,425.9
Other intangible assets - net	773.0	831.1
Other noncurrent assets	390.8	392.3
Total Assets	\$ 8,920.8	\$ 9,494.3

Liabilities

Current Liabilities		
Accounts payable	\$ 863.4	\$ 767.6
Accrued liabilities	843.6	795.7
Short-term and current portion of long-term debt	431.9	923.5