



# RR Donnelley Reports Fourth-Quarter and Full-Year 2009 Results and Announces Acquisition of Bowne

Feb 22, 2010

## Highlights:

- Full-year cash flow from operations of \$1.4 billion, an increase of \$407.8 million from 2008
- Total debt reduction of \$804.4 million during 2009
- Company expects revenue growth in 2010
- Fourth-quarter 2009 GAAP net loss from continuing operations attributable to common shareholders of \$79.5 million or \$0.39 per diluted share vs. a net loss of \$686.9 million or \$3.35 per diluted share in the fourth quarter of 2008
- Fourth-quarter 2009 non-GAAP net earnings from continuing operations attributable to common shareholders of \$95.4 million or \$0.46 per diluted share compared to \$129.3 million or \$0.63 per diluted share in the fourth quarter of 2008
- Company enters into a definitive agreement to acquire Bowne

CHICAGO, Feb 23, 2010 (BUSINESS WIRE) -- **R.R. Donnelley & Sons Company (NASDAQ: RRD)** today reported a fourth-quarter net loss from continuing operations attributable to common shareholders of \$79.5 million or \$0.39 per diluted share on net sales of \$2.6 billion compared to a net loss from continuing operations attributable to common shareholders of \$686.9 million or \$3.35 per diluted share on net sales of \$2.8 billion in the fourth quarter of 2008. The fourth-quarter net loss from continuing operations attributable to common shareholders included pre-tax charges for restructuring (\$17.5 million) and impairment (\$131.1 million) totaling \$148.6 million in 2009 compared to charges for restructuring (\$10.7 million) and impairment (\$1,127.6 million) totaling \$1,138.3 million in 2008. As detailed in the attached tables, substantially all of the impairment charges in both years are non-cash and follow the Company's annual impairment test of goodwill. Substantially all of the restructuring charges in both the fourth quarter 2009 and the fourth quarter 2008 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 \$95.4 million or \$0.46 per diluted share in the fourth quarter of 2009 compared to \$129.3 million or \$0.63 per diluted share in the fourth quarter of 2008. Fourth-quarter non-GAAP net earnings attributable to common shareholders exclude restructuring and impairment charges for both years. Also excluded from 2009 is the income tax expense related to the reorganization of entities within the International segment, the write-down of affordable housing investments and acquisition expenses. Excluded from 2008 are the income tax benefits resulting from the decline in value and reorganization of certain entities within the International segment, the loss related to the termination of cross-currency swaps and income from discontinued operations. For non-GAAP comparison purposes, the effective tax rate decreased to 21.1% in the fourth quarter of 2009 from 30.8% in the fourth 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.

"We achieved the expected sequential revenue growth versus the third quarter and effectively managed our operating costs and working capital to generate \$327 million in operating cash flow during the quarter," said Thomas J. Quinlan III, RR Donnelley's President and Chief Executive Officer.

Quinlan added, "We began the year with a sharp focus on two primary elements of our strategy: achieving operational excellence in serving our customers and maintaining a very strong liquidity position by maximizing cash flow and deploying it prudently. As a result, we generated over \$1.4 billion in operating cash flow during the year and reduced our total debt by more than \$800 million. The actions we took in 2009 to enhance our already strong balance sheet provide us with continued significant liquidity and positioned us well to make the strategic acquisition of Bowne, which will be accretive to earnings within the first twelve months of completion."

Quinlan continued, "Although the pace of economic recovery remains uncertain, we begin 2010 with the ability and expectation to achieve revenue growth, above and beyond any impact of the acquisition."

### **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 \$2.6 billion, down 7.6% from the fourth quarter of 2008 and inclusive of a 1.7% positive impact from changes in foreign exchange rates. The decrease was caused by volume declines and continued price pressure across most products and services. Gross margin decreased to 23.3% in the fourth quarter of 2009 from 24.0% in the fourth quarter of 2008 due to price and volume declines and higher incentive compensation expense, offset in part by the benefits of our continued productivity efforts and a lower LIFO inventory provision. SG&A expense as a percentage of net sales in the fourth quarter of 2009 increased to 10.9% from 9.7% in the fourth quarter of 2008 due to lower net sales and higher incentive compensation expense, partially offset by a lower bad debt provision. Operating earnings were negatively impacted by charges for restructuring and impairment of \$148.6 million in the fourth quarter of 2009 and restructuring and impairment charges of \$1,138.3 million in the fourth quarter of 2008 that resulted in operating income of \$28.5 million in 2009 and an operating loss of \$892.9 million in 2008.

Excluding charges for restructuring and impairment in the fourth quarter of both years and acquisition expenses in the fourth quarter of 2009, our non-GAAP operating margin in the fourth quarter of 2009 decreased to 6.9% from 8.8% in the fourth quarter of 2008, as the benefits from our productivity efforts and lower bad debt and LIFO inventory provisions were more than offset by an increase in incentive compensation expense, and price and volume declines.

### **Segments**

Net sales for the U.S. Print and Related Services segment in the quarter decreased 10.9% to \$1.9 billion from the fourth quarter of 2008 due to volume and price declines across most products and services. The segment's operating income, which was negatively impacted by charges for restructuring and impairment of \$101.5 million in the fourth quarter of 2009 and \$380.2 million in the fourth quarter of 2008, increased to \$71.4 million in the fourth quarter of 2009 from a loss of \$128.3 million in the fourth quarter of 2008. Excluding restructuring and impairment charges, the segment's non-GAAP operating margin decreased to 9.0% in the fourth quarter of 2009 from 11.7% in the fourth quarter of 2008, as higher incentive compensation expense and the impact of price and volume declines were only partially offset by the benefits of continued productivity efforts.

Net sales for the International segment in the quarter increased 3.4% to \$659.5 million from the fourth quarter of 2008, including a 7.2% positive impact from changes in foreign exchange rates. The positive impact of foreign exchange rates was partially offset by volume declines in our business process outsourcing and European units and pricing pressure in Europe. The segment's operating loss, which was negatively impacted by charges for restructuring and impairment of \$44.2 million in the fourth quarter of 2009 and \$757.5 million in the fourth quarter of 2008, improved to a \$3.1 million loss in the fourth quarter of 2009 from a \$712.8 million loss in the fourth quarter of 2008. Excluding restructuring and impairment charges, the segment's non-GAAP operating margin decreased to 6.2% in the fourth quarter of 2009 from 7.0% in the fourth quarter of 2008 due to the impact of price and volume declines, as well as higher incentive compensation expense, partially offset by the benefits of continued productivity efforts and a lower bad debt provision.

Unallocated Corporate operating expense decreased to \$39.8 million in the fourth quarter of 2009 as compared to \$51.8 million in the fourth quarter of 2008. Excluding restructuring charges of \$2.9 million and acquisition expenses of \$0.1 million in the fourth quarter of 2009 and restructuring charges of \$0.6 million in the fourth quarter of 2008, unallocated Corporate operating expense decreased \$14.4 million to \$36.8 million in the fourth quarter of 2009. Driving this decrease were lower LIFO inventory and bad debt provisions and cost reduction actions, partially offset by higher incentive compensation expense.

## **Conference Call**

RR Donnelley will host a conference call and simultaneous webcast to discuss its fourth-quarter and full-year results tomorrow, Wednesday, February 24, 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](http://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 52807741.

## **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 products and 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**

**Consolidated Balance Sheets**

**As of December 31, 2009 and December 31, 2008**

**(UNAUDITED)**

**(In millions, except per share data)**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 499.2	\$ 324.0
Restricted cash equivalents	-	7.9
Receivables, less allowance for doubtful accounts	1,675.9	1,903.2
Income taxes receivable	63.2	189.4
Inventories	561.8	695.7
Prepaid expenses and other current assets	87.0	104.6
Deferred income taxes	73.8	56.2
<b>Total Current Assets</b>	<b>2,960.9</b>	<b>3,281.0</b>
Property, plant and equipment - net	2,271.4	2,564.0
Goodwill	2,333.3	2,425.9
Other intangible assets - net	747.4	831.1
Other noncurrent assets	434.6	392.3
<b>Total Assets</b>		