



RR Donnelley Reports First-Quarter 2010 Results

May 05, 2010

Highlights:

- First-quarter 2010 GAAP earnings per diluted share increased to \$0.25 from \$0.07 in the first quarter of 2009
- First-quarter 2010 non-GAAP earnings per diluted share increased to \$0.33 from \$0.24 in the first quarter of 2009
- First-quarter 2010 GAAP operating margin improved by 248 basis points from the first quarter of 2009
- First-quarter 2010 non-GAAP operating margin improved by 100 basis points from the first quarter of 2009
- Company reaffirms full-year outlook for low single-digit revenue growth, excluding acquisitions, and operating cash flow less capex in the range of \$600 million to \$650 million

CHICAGO, May 05, 2010 (BUSINESS WIRE) -- **R.R. Donnelley & Sons Company (NASDAQ: RRD)** today reported first-quarter net earnings attributable to common shareholders of \$52.6 million or \$0.25 per diluted share on net sales of \$2.4 billion compared to net earnings attributable to common shareholders of \$13.9 million or \$0.07 per diluted share on net sales of \$2.5 billion in the first quarter of 2009. The first-quarter net earnings attributable to common shareholders included pre-tax charges for restructuring (\$14.5 million) and impairment (\$1.0 million) totaling \$15.5 million in 2010 compared to charges for restructuring (\$41.4 million) and impairment (\$12.8 million) totaling \$54.2 million in 2009. Substantially all of the restructuring charges in both the first quarter 2010 and the first quarter 2009 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 \$69.5 million or \$0.33 per diluted share in the first quarter of 2010 compared to \$49.2 million or \$0.24 per diluted share in the first quarter of 2009. First-quarter non-GAAP net earnings attributable to common shareholders exclude restructuring and impairment charges for both years. Also excluded from 2010 are acquisition expenses and charges associated with the currency devaluation in Venezuela. For non-GAAP comparison purposes, the effective tax rate decreased to 35.6% in the first quarter of 2010 from 37.1% in the first quarter of 2009, due to the increased benefit from the domestic manufacturing deduction in 2010 and a change in the mix of income across tax jurisdictions, partially offset by a one-time charge of \$3.3 million associated with the enacted Patient Protection and Affordable Care Act. 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 are very pleased with our first-quarter results. The benefits of our diverse product offerings and the actions taken to improve our cost structure have driven our higher operating margins," said Thomas J. Quinlan III, RR Donnelley's President and Chief Executive Officer.

Quinlan added, "While the economic outlook remains uncertain, we approach the balance of the year with tempered enthusiasm. For the full year, we continue to expect revenue growth, excluding acquisitions, in the low single digits, and operating cash flow less capital expenditures in the range of \$600 million to \$650 million. This expectation is in line with our proven ability to achieve consistent cash flow, as reflected by the nearly \$4.2 billion in operating cash flow less capital expenditures generated since the beginning of 2004."

Business Review

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 \$2.4 billion, down 1.6% from the first quarter of 2009 and inclusive of a 2.0% positive impact from changes in foreign exchange rates. Excluding the impact from foreign exchange, the 3.6% decrease was caused primarily by continued price pressure and a reduction in paper sales; the reduction in paper sales was due to the combination of lower paper prices and an increase in the relative amount of customer-supplied paper. Gross margin increased to 23.7% in the first quarter of 2010 from 23.3% in the first quarter of 2009 due to continued productivity efforts and a higher recovery on print-related by-products, partially offset by continued price pressure. SG&A expense as a percentage of net sales in the first quarter of 2010 decreased to 11.3% from 11.5% in the first quarter of 2009 primarily due to continued productivity efforts. Operating earnings were negatively impacted by charges for restructuring and impairment of \$15.5 million and acquisition expenses of \$2.0 million in the first quarter of 2010 and restructuring and impairment charges of \$54.2 million in the first quarter of 2009 that resulted in operating income of \$145.8 million in 2010 and \$87.4 million in 2009.

Excluding charges for restructuring and impairment in the first quarter of both years and acquisition expenses in the first quarter of 2010, our non-GAAP operating margin in the first quarter of 2010 increased to 6.8% from 5.8% in the first quarter of 2009, as the benefits from our productivity efforts and the higher by-products recoveries were partially offset by continued price pressure.

Segments

Net sales for the U.S. Print and Related Services segment in the quarter decreased 3.7% from the first quarter of 2009 to \$1.8 billion primarily due to lower paper sales and price declines across most products and services. The reduction in paper sales was related to both lower paper prices and an increase in the relative amount of customer-supplied paper. The segment's operating income, which was negatively impacted by charges for restructuring and impairment of \$5.9 million in the first quarter of 2010 and \$32.7 million in the first quarter of 2009, increased to \$163.8 million in the first quarter of 2010 from \$114.4 million in the first quarter of 2009. Excluding the restructuring and impairment charges, the segment's non-GAAP operating margin increased to 9.2% in the first quarter of 2010 from 7.7% in the first quarter of 2009, as the benefits of continued productivity efforts and higher by-products recoveries more than offset the impact of price erosion.

Net sales for the International segment in the quarter increased 5.5% from the first quarter of 2009 to \$578.3 million due to a 9.0% positive impact from changes in foreign exchange rates, partially offset by volume and price declines. The segment's operating income, which was negatively impacted by charges for restructuring of \$9.5 million in the first quarter of 2010 and restructuring and impairment charges of \$18.3 million in the first quarter of 2009, improved to \$33.7 million in the first quarter of 2010 from \$16.5 million in the first quarter of 2009. Excluding the restructuring and impairment charges, the segment's non-GAAP operating margin increased to 7.5% in the first quarter of 2010 from 6.3% in the first quarter of 2009 due to favorable product mix and the benefits of continued productivity efforts, partially offset by the impact of price erosion.

Unallocated Corporate operating expenses increased to \$51.7 million in the first quarter of 2010 as compared to \$43.5 million in the first quarter of 2009. Excluding acquisition expenses of \$2.0 million and restructuring charges of \$0.1 million in the first quarter of 2010 and restructuring charges of \$3.2 million in the first quarter of 2009,

unallocated Corporate operating expenses increased \$9.3 million to \$49.6 million in the first quarter of 2010. Higher non-cash pension and other benefits-related expenses, partially offset by our productivity efforts, were the primary factors contributing to the increase.

Conference Call

RR Donnelley will host a conference call and simultaneous webcast to discuss its first-quarter results today, Wednesday, May 5, 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 66556813.

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.

As of March 31, 2010 and December 31, 2009

(UNAUDITED)

(In millions, except per share data)

	March 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 451.3	\$ 499.2
Restricted cash equivalents	38.9	-
Receivables, less allowance for doubtful accounts	1,659.3	1,675.9
Income taxes receivable	48.0	63.2
Inventories	526.1	561.8
Prepaid expenses and other current assets	184.2	160.8
Total Current Assets	2,907.8	2,960.9
Property, plant and equipment - net	2,193.2	2,271.4
Goodwill	2,327.8	2,333.3
Other intangible assets - net	716.9	747.4
Other noncurrent assets	424.8	434.6
Total Assets	\$ 8,570.5	\$ 8,747.6

Liabilities

Current Liabilities