

RR Donnelley & Sons Co
Form 10-Q
November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware	36-1004130
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

35 West Wacker Drive,

Chicago, Illinois	60601
(Address of principal executive offices)	(Zip code)

(312) 326-8000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2016, 69.8 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	Page
PART I	
FINANCIAL INFORMATION	
Item 1: <u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	59
Item 4: <u>Controls and Procedures</u>	59
PART II	
OTHER INFORMATION	
Item 1: <u>Legal Proceedings</u>	59
Item 1A: <u>Risk Factors</u>	59
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	68
Item 4: <u>Mine Safety Disclosures</u>	68
Item 6: <u>Exhibits</u>	69
<u>Signatures</u>	74

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RR DONNELLEY”)

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 411.8	\$ 389.6
Receivables, less allowances for doubtful accounts of \$53.6 in 2016 (2015 - \$41.5)	2,109.3	2,000.4
Inventories (Note 3)	651.1	592.0
Prepaid expenses and other current assets	140.3	119.7
Total current assets	3,312.5	3,101.7
Property, plant and equipment-net (Note 4)	1,342.3	1,448.1
Goodwill (Note 5)	1,787.3	1,743.6
Other intangible assets-net (Note 5)	403.3	438.0
Deferred income taxes	211.1	178.2
Other noncurrent assets	416.0	369.7
Total assets	\$ 7,472.5	\$ 7,279.3
LIABILITIES		
Accounts payable	\$ 1,172.7	\$ 1,322.3
Accrued liabilities	793.3	780.4
Short-term and current portion of long-term debt (Note 13)	255.6	234.6
Total current liabilities	2,221.6	2,337.3
Long-term debt (Note 13)	3,635.3	3,188.3
Pension liabilities	554.7	514.4
Other postretirement benefits plan liabilities	163.3	168.8
Other noncurrent liabilities	359.2	373.9
Total liabilities	6,934.1	6,582.7
Commitments and Contingencies (Note 12)		
EQUITY (Note 8)		
RR Donnelley stockholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$0.01 par value in 2016 (2015 - \$1.25)		
Authorized: 165.0 shares;		
Issued: 89.0 shares in 2016 and 2015	0.9	111.2
Additional paid-in-capital	3,473.8	3,386.8
Accumulated deficit	(765.6)	(620.6)
Accumulated other comprehensive loss	(815.7)	(793.2)

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Treasury stock, at cost, 19.2 shares in 2016 (2015 - 19.4 shares)	(1,369.0)	(1,401.5)
Total RR Donnelley stockholders' equity	524.4	682.7
Noncontrolling interests	14.0	13.9
Total equity	538.4	696.6
Total liabilities and equity	\$ 7,472.5	\$ 7,279.3

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RR DONNELLEY”)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months		Nine Months Ended	
	Ended September 30, 2016	2015	September 30, 2016	2015
Products net sales	\$2,281.6	\$2,359.0	\$6,706.3	\$6,883.8
Services net sales	490.8	469.0	1,447.2	1,438.4
Total net sales	2,772.4	2,828.0	8,153.5	8,322.2
Products cost of sales (exclusive of depreciation and amortization)	1,780.5	1,844.8	5,237.2	5,386.5
Services cost of sales (exclusive of depreciation and amortization)	384.2	363.3	1,134.4	1,120.3
Total cost of sales	2,164.7	2,208.1	6,371.6	6,506.8
Products gross profit	501.1	514.2	1,469.1	1,497.3
Services gross profit	106.6	105.7	312.8	318.1
Total gross profit	607.7	619.9	1,781.9	1,815.4
Selling, general and administrative expenses (exclusive of depreciation and amortization)	333.4	328.4	1,099.9	972.4
Restructuring, impairment and other charges-net (Note 6)	15.0	52.9	38.4	104.9
Depreciation and amortization	101.5	115.3	312.5	341.5
Other operating expense (income)	0.3	—	(12.0)	—
Income from operations	157.5	123.3	343.1	396.6
Interest expense-net	67.1	69.0	204.1	207.2
Investment and other (income) expense-net	(0.6)	3.0	0.4	43.2
Loss on debt extinguishments	85.3	—	85.3	—
Earnings before income taxes	5.7	51.3	53.3	146.2
Income tax expense	12.5	39.7	34.3	79.1
Net (loss) earnings	(6.8)	11.6	19.0	67.1
Less: Income (loss) attributable to noncontrolling interests	0.3	(2.7)	0.8	(13.0)
Net (loss) earnings attributable to RR Donnelley common stockholders	\$(7.1)	\$14.3	\$18.2	\$80.1
Net (loss) earnings per share attributable to RR Donnelley common stockholders (Note 9):				
Basic net (loss) earnings per share ⁽¹⁾	\$(0.10)	\$0.21	\$0.26	\$1.18
Diluted net (loss) earnings per share ⁽¹⁾	\$(0.10)	\$0.20	\$0.26	\$1.17
Dividends declared per common share ⁽¹⁾	\$0.78	\$0.78	\$2.34	\$2.34
Weighted average number of common shares outstanding:				
Basic ⁽¹⁾	70.0	69.7	70.0	68.1
Diluted ⁽¹⁾	70.0	70.1	70.5	68.5

(1) Earnings per share amounts, dividends declared per share amounts and adjusted weighted average common shares outstanding for all periods reflect RR Donnelley's 1-for-3 reverse stock split, which was effective October 1, 2016. (See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES ("RR DONNELLEY")

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) earnings	\$(6.8)	\$11.6	\$19.0	\$67.1
Other comprehensive (loss) income, net of tax (Note 10):				
Translation adjustments	(4.4)	(37.5)	(9.0)	(42.5)
Adjustment for net periodic pension and postretirement benefits plan cost	(19.4)	2.2	(13.3)	10.4
Change in fair value of derivatives	—	0.1	—	0.1
Other comprehensive loss	(23.8)	(35.2)	(22.3)	(32.0)
Comprehensive (loss) income	(30.6)	(23.6)	(3.3)	35.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.3	(3.7)	1.0	(14.0)
Comprehensive (loss) income attributable to RR Donnelley common stockholders	\$(30.9)	\$(19.9)	\$(4.3)	\$49.1

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RR DONNELLEY”)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net earnings	\$ 19.0	\$ 67.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Impairment charges	0.8	29.4
Depreciation and amortization	312.5	341.5
Provision for doubtful accounts receivable	20.4	12.5
Share-based compensation	13.4	13.6
Deferred income taxes	(33.5)	(43.0)
Changes in uncertain tax positions	(0.4)	9.4
(Gain) loss on investments and other assets - net	(13.0)	13.1
Loss related to Venezuela currency remeasurement-net	—	30.3
Net pension and other postretirement benefits plan income	(55.1)	(33.2)
Net loss on pension and other postretirement benefits plan settlements and curtailments (Note 7)	78.8	—
Loss on debt extinguishments	85.3	—
Other	9.6	20.8
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	(126.0)	(54.9)
Inventories	(57.6)	(29.1)
Prepaid expenses and other current assets	(9.2)	5.5
Accounts payable	(159.6)	(72.3)
Income taxes payable and receivable	(35.6)	18.8
Accrued liabilities and other	(23.4)	(105.5)
Pension and other postretirement benefits plan contributions	(18.6)	(19.8)
Net cash provided by operating activities	7.8	204.2
INVESTING ACTIVITIES		
Capital expenditures	(147.9)	(152.8)
Acquisitions of businesses, net of cash acquired	(47.5)	(118.3)
Dispositions of businesses	13.7	0.6
Proceeds from sales of investments and other assets	3.7	17.4
Transfers from restricted cash	13.7	—
Other investing activities	(3.6)	(7.9)
Net cash used in investing activities	(167.9)	(261.0)
FINANCING ACTIVITIES		
Net change in short-term debt	5.7	12.9
Payments of current maturities and long-term debt	(786.6)	