



Edgar Filing: Quad/Graphics, Inc. - Form 10-K

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The aggregate market value of the class A common stock (based on the closing price of \$22.92 per share on the New York Stock Exchange, LLC) on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, held by non-affiliates was \$702,668,352. The registrant's class B common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class B common stock is convertible into one share of the registrant's class A common stock.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of February 16, 2018
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Class A Common Stock	38,866,987
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Class B Common Stock	13,841,703
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Class C Common Stock	—
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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the registrant's 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Table of Contents

QUAD/GRAPHICS, INC.

FORM 10-K INDEX

For the Year Ended December 31, 2017

	Page No.
<u>Forward-Looking Statements</u>	<u>1</u>
 <u>Part I</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>15</u>
<u>Unresolved</u>	
<u>Item 1B. Staff</u>	<u>29</u>
<u>Comments</u>	
<u>Item 2. Properties</u>	<u>29</u>
<u>Item 3. Legal</u>	<u>29</u>
<u>Proceedings</u>	
<u>Item 4. Mine Safety</u>	<u>29</u>
<u>Disclosures</u>	
 <u>Part II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>30</u>
<u>Item 6. Selected Financial Data</u>	<u>34</u>
<u>Management's Discussion and Analysis of</u>	
<u>Item 7. Financial Condition and Results of Operations</u>	<u>35</u>
<u>Quantitative and Qualitative</u>	
<u>Item 7A. Disclosures About Market Risk</u>	<u>73</u>
<u>Item 8. Financial Statements and</u>	<u>75</u>

	<u>Supplementary Data Changes in and Disagreements with</u>	
<u>Item 9.</u>	<u>Accountants on Accounting and Financial Disclosure</u>	<u>145</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>145</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>146</u>

Part III

	<u>Directors, Executive Officers and Corporate Governance</u>	
<u>Item 10.</u>	<u>Officers and Corporate Governance</u>	<u>146</u>
<u>Item 11.</u>	<u>Executive Compensation Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Certain Relationships and Related Transactions, and Director Independence Principal Accountant Fees and Services</u>	<u>146</u>
<u>Item 12.</u>	<u>Owners and Management and Related Stockholder Matters Certain Relationships and Related Transactions, and Director Independence</u>	<u>146</u>
<u>Item 13.</u>	<u>Transactions, and Director Independence Principal Accountant Fees and Services</u>	<u>147</u>
<u>Item 14.</u>	<u>Accountant Fees and Services</u>	<u>147</u>

Part IV

	<u>Exhibit Index and Financial Statement Schedules</u>	
<u>Item 15.</u>	<u>Form 10-K Summary</u>	<u>148</u>
<u>Item 16.</u>	<u>Summary</u>	<u>154</u>

Signatures

155

i

---

## Table of Contents

### Forward-Looking Statements

To the extent any statements in this Annual Report on Form 10-K contain information that is not historical, these statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to, among other things, the 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," "believe" or "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 the Company. 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 those described in Part I, Item 1A, "Risk Factors," of this Annual Report on Form 10-K, as such may be amended or supplemented in Part II, Item 1A, "Risk Factors," of the Company's subsequently filed Quarterly Reports on Form 10-Q, and the following:

- The impact of decreasing demand for printed materials and significant overcapacity in the highly competitive commercial printing industry creates downward pricing pressures and potential under-utilization of assets;

- 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 impact of increased business complexity as a result of the Company's transformation to a marketing solutions provider;

- The impact of regulatory matters and legislative developments or changes in laws, including changes in cyber-security, privacy and environmental laws;

- 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 attract and retain qualified production personnel;

- The impact of changes in postal rates, service levels or regulations;

- The fragility and decline in overall distribution channels, including newspaper distribution channels;

- 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;

• Significant capital expenditures may be needed to maintain the Company's platform and processes and to remain technologically and economically competitive;

• The impact of the various restrictive covenants in the Company's debt facilities on the Company's ability to operate its business;

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; and

• 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.

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 ("SEC") and other uncertainties and potential events when reviewing the Company's 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 Annual Report on Form 10-K. 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.

Table of Contents

PART I

Item 1. Business

Overview

Quad/Graphics is a leading marketing solutions provider. The Company leverages its strong print foundation as part of a much larger, robust integrated marketing platform that helps marketers and content creators improve the efficiency and effectiveness of their marketing spend across offline and online media channels. With a consultative approach, worldwide capabilities, leading-edge technology and single-source simplicity, the Company believes it has the resources and knowledge to help a wide variety of clients in multiple vertical industries, including retail, publishing and healthcare.

Quad/Graphics was founded in Pewaukee, Wisconsin, as a Wisconsin corporation, in 1971 by the late Harry V. Quadracci. As of December 31, 2017, the Company had approximately 21,100 full-time equivalent employees in North America, South America, Europe and Asia, and served a diverse base of approximately 6,900 clients from 147 facilities located in 17 countries, as well as investments in printing operations in Brazil and India.

The Company is on a transformative journey that it describes in evolutions. Each new evolution expands the Company's offerings and creates enhanced value for its clients. Quad 1.0 covered a period of tremendous organic growth that began with its founding in 1971. During this 40-year period, the Company grew rapidly through greenfield growth, built a premier manufacturing and distribution platform equipped with the latest technology, established its reputation as one of the industry's foremost innovators and created a Company culture based on strong values that remains in place today.

Quad 2.0 began in 2010 and continues today with Quad/Graphics' ongoing role as a disciplined industry consolidator. Quad/Graphics saw an opportunity to participate in industry consolidation in response to economic and industry pressures following the Great Recession of 2008 and 2009, which severely impacted print volumes. Through a series of consolidating acquisitions, the Company was able to enhance and expand its product offerings, while removing inefficient and underutilized capacity, pulling out costs and transitioning work to more efficient facilities.

Quad 3.0 evolved when the seismic shifts in today's multichannel marketing environment provided the opportunity for Quad/Graphics to expand its offering as a marketing solutions provider to create greater value for its clients in two distinct ways:

The Company will continue to leverage its strong print foundation and expand its integrated marketing platform to help marketers and content creators create, integrate, deploy and measure content more efficiently and effectively.

To fuel Quad 3.0, the Company is supported by an engaged workforce with the latest in manufacturing technology to drive continued productivity improvements. The Company believes this will strengthen its core manufacturing platform to be the strongest and most sustainable platform in the industry, with the goal of remaining the industry's high-quality, low-cost producer.

More information regarding Quad/Graphics is available on the Company's website at [www.QG.com](http://www.QG.com). Quad/Graphics is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are made available to the public at no charge through a link appearing on the Company's website. Quad/Graphics provides access to such materials through its website as soon as reasonably practicable after electronically filing such material

with, or furnishing it to, the SEC.

2

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## Table of Contents

### Industry and Competition

According to a September 2017 Dun & Bradstreet First Research report, the U.S. advertising services industry is forecasted to grow at an annual compounded rate of 4% between 2017 and 2021, as compared to the printing industry which is in secular decline. This opportunity for growth supports Quad/Graphics' 3.0 transformation and a review of both the marketing services and printing industries is set forth below.

The marketing services industry is highly fragmented. According to the September 2017 Dun & Bradstreet First Research report, the top 50 companies in the U.S. advertising and marketing services industry generate less than 40% of industry revenue. Services in this industry include advertising for print, broadcast and online media (about 25% of industry sales); public relations (12%); and direct marketing (10%). Other services include display advertising, media buying (reselling advertising time or space), and media representation (selling advertising time or space on behalf of media outlet owners). The U.S. advertising and marketing services industry includes about 38,000 establishments (single-location companies and units of multi-location companies), with combined annual revenue of about \$100 billion.

The commercial print industry is also highly fragmented. According to the June 2017 Printing in the U.S. IBISWorld industry report, the United States commercial printing industry, in the aggregate, generates an estimated \$76 billion in annual revenue, employs nearly 400,000 people and is comprised of approximately 46,000 companies. The report also states that the four largest printing companies account for less than 15% of total commercial print industry annual revenue in the United States, with Quad/Graphics being the second largest. Although there has been significant industry consolidation, particularly in the past decade, the largest 400 U.S. printers represent less than half of the total industry revenue in the U.S., according to the December 2017 Printing Impressions PI400 rankings.

In addition to being highly fragmented, competition in the printing industry remains intense, and the Company believes that there are indicators of heightened competitive pressures. The industry has excess manufacturing capacity created by continued declines in industry volumes which, in turn, have created accelerated downward pricing pressures. The Company faces competition due to the increased accessibility and quality of digital alternatives to traditional delivery of printed documents through the online distribution and hosting of media content, and the digital distribution of documents and data. The Company faces competition from print management firms that look to streamline processes and reduce the overall print spend of the Company's clients. The Company believes the commercial print industry has moved toward a demand for shorter print runs, faster product turnaround and increased production efficiency of products with lower page counts and increased complexity. This, combined with increases in postage expenses and the increased use of alternative digital marketing technologies, has led to excess manufacturing capacity in the print industry, and this excess capacity has allowed certain larger printers, like Quad/Graphics, with economies of scale, strong balance sheets and access to capital markets, the ability to install more efficient equipment, take advantage of consolidating acquisition opportunities to remove excess, inefficient and/or underutilized capacity, and reduce overall costs.

Competition in both the marketing services and print industries is affected by real gross domestic product growth, as economic activity and advertising spending are key drivers of consumer demand. In times of economic prosperity, advertisers may increase spending to build brand awareness and to drive sales. Conversely, in times of global economic uncertainty and budget pressures, advertisers may reduce spending or shift their spend to other forms of media. For print specifically, magazine publishers, facing diminished advertising pages, reduce total page counts; catalog marketers reduce page counts, circulation and frequency of print campaigns; retailers curb investments in store inventory and cut back on retail insert newspaper circulation and advertising; and other advertisers reduce their direct mail volume, particularly in the banking, insurance, credit card, real estate and nonprofit industries. It is possible that these customers instead decide to move advertising spend to digital alternatives.

Marketing services providers face pressure to satisfy major clients' needs, as the win or loss of a major client account can impact revenue significantly. Another challenge facing marketing service providers relates to public concern and general annoyance with advertising methods. For example, data collection of personal information for marketing purposes is an issue under scrutiny from federal legislation, and marketing service providers can face restrictions on certain types of data they collect.

## Table of Contents

The Company faces competition in the advertising and marketing services industry based on access to a skilled workforce, pricing, adapting quickly to new technology, creating unique and effective campaigns and offering superior customer service. Across Quad/Graphics' range of printed products, competition is based on total price of printing, materials and distribution; quality; distribution capabilities; customer service; access to a highly skilled workforce; availability to schedule work on appropriate equipment; on-time production and delivery; and state-of-the-art technology to meet a client's business objectives, including the ability to adopt new technology quickly.

As consumer media consumption habits change, marketing services providers face increased demand to offer complete marketing services across both traditional and digital channels. As new advertising channels emerge, marketing services providers must offer not only traditional marketing services, such as for television, newspapers, print publications and radio, but they must also offer services for digital channels, such as mobile, internet search, internet display and video, to create effective multichannel campaigns for their clients.

Quad/Graphics believes that traditional business users of print and print-related services are focused on generating and tracking the highest returns on their marketing spend. The Company believes that its clients receive the greatest return on their marketing and advertising dollars when they effectively use data to go after the appropriate customers and integrate digital alternatives with customized print products in a targeted, multichannel marketing campaign driven by an overall marketing strategy. Quad/Graphics believes it is well positioned to help its clients navigate through this changing media landscape and create innovative ways to connect online and offline channels.

### Seasonality

The Company is subject to seasonality in its quarterly results as net sales and operating income are higher in the third and fourth quarters of the calendar year as compared to the first and second quarters. The fourth quarter is typically the highest seasonal quarter for cash flows from operating activities and Free Cash Flow due to the reduction of working capital requirements that reach peak levels during the third quarter. Seasonality is driven by increased magazine advertising page counts, retail inserts, catalogs and books primarily due to back-to-school and holiday-related advertising and promotions. The Company expects this seasonality impact to continue.

### Strategy

Quad/Graphics believes employee pride, combined with a relentless quest to create a better way, builds the opportunity to invent new ideas that drive improved performance and shared success for all. To accomplish this vision, Quad/Graphics remains focused on its consistent mission to achieve the following:

#### Walk in the Shoes of Clients

The Company reinforces that all employees, regardless of job title, are part of Quad/Graphics' client experience team. As such, all employees are responsible for meeting the needs of its clients every day, making it easy to work with Quad/Graphics, and making the client experience enjoyable at every touchpoint. In Quad 3.0, the Company is focused on supplementing client print-execution conversations with consultative solutions that will improve a client's business through process efficiencies and marketing spend effectiveness. To accomplish this, a key component of Quad/Graphics' client-facing strategy is to strengthen relationships at different levels inside a client's organization so the Company can better understand, anticipate and satisfy a client's needs. In Quad 3.0, Quad/Graphics seeks to become an invaluable strategic partner for its clients, helping them successfully navigate today's constantly changing multichannel media landscape through innovative data-driven solutions, created and executed across multiple channels. The Company also believes its proactive thought leadership in key issues facing its clients, such as integrating marketing services and postal reform, will foster loyalty to the Quad/Graphics brand.



## Table of Contents

### Grow the Business Profitably

Key components of this strategy center on Quad/Graphics' ability to grow in Quad 3.0, at a time when industry headwinds continue, and are as follows:

Ongoing innovation and investment to integrate offline and online media, in support of the Company's Quad 3.0 value proposition of helping clients create, integrate, deploy and measure content more efficiently and market more effectively. This includes process investments to help clients optimize workflows through audit and discovery services; streamlined content creation to help reduce overall production and distribution costs and improve speed-to-market; and platform investments in variable printing and data management to bridge the traditional analog and digital marketing worlds to help clients precisely segment, execute and measure more personal, one-on-one relevant brand experiences via multichannel campaigns that engage consumers at the right place and time to generate greater market penetration and lift in response.

Organic growth, in which the Company leverages knowledge from existing client relationships in key growth vertical industries to develop complementary products and services that help brand owners market more efficiently and effectively across media channels. Quad/Graphics is also focused on ensuring it has the right talent in the best positions to have strategic marketing conversations with its clients that facilitate understanding their needs, developing tailored solutions and growing market share.

Disciplined acquisitions, that take many different forms. For example, the Company intends to continue to transform its existing product lines while expanding into higher growth product and service categories that help bolster the Company's ability to create value for its clients, as well as pursue value-driven industry consolidating acquisitions and/or acquisitions that help accelerate the Company's transformation in Quad 3.0.

### Strengthen the Core

Quad/Graphics uses a disciplined return on capital framework and historically has made significant investments in its print manufacturing platform and data management capabilities that have resulted in what it believes is the most integrated, automated, efficient, innovative and modern manufacturing platform and distribution network in the industry. The Company's continued focus to strengthen its core manufacturing platform through investments to streamline, automate and improve efficiencies and throughput, while reducing labor costs, promotes sustainable cash flow and continued value creation. Further, a commitment to Lean Enterprise and a disciplined culture of continuous improvement is a high priority throughout the Company and supports its goal of strengthening the production and distribution functions for core product lines to remain the industry's high-quality, low-cost producer.

### Engage Employees

Quad/Graphics' strategy to engage employees builds upon its mission to attract, retain and develop employees throughout their entire career journey with the Company. All three elements combine to support Quad/Graphics' ongoing Quad 3.0 transformation, and build on key aspects of its distinct and transparent corporate culture. This includes strong and lasting Company values, an organization-wide entrepreneurial spirit and opportunity-seeking mentality where employees are encouraged to take pride and ownership in their work, take advantage of continuous learning programs to advance in their careers, share knowledge by mentoring others and innovate solutions to drive performance. With the encouragement to do things differently, be something greater and create a better way, the Company believes its employees are more fully engaged in producing better results for clients and advancing the Company's strategic goals, while supporting community activities, initiatives and organizations that impact the quality of life near Quad/Graphics facilities. As Quad/Graphics continues to expand its integrated marketing platform in Quad 3.0, the Company believes this creates possibilities for each employee that are advantageously distinct from

other employers.

5

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## Table of Contents

### Enhance Financial Strength and Create Shareholder Value

Quad/Graphics follows a disciplined approach to maintaining and enhancing financial strength to create shareholder value, which is essential given ongoing printing industry challenges. This key strategic goal is centered on the Company's ability to maximize net earnings, Free Cash Flow and operating margins; maintain consistent financial policies to ensure a strong balance sheet, liquidity level and access to capital; and retain the financial flexibility needed to strategically allocate and deploy capital as circumstances change. The priorities for capital allocation and deployment are adjusted based on prevailing circumstances and what the Company thinks is best for shareholder value creation at any particular point in time. Those priorities currently include the following: (1) deleveraging the Company's balance sheet through debt and pension liability reductions; (2) making compelling investments that drive profitable organic growth and productivity in the Company's current business, as well as executing on acquisitions through a disciplined approach that includes expansion into higher-growth products and services that help accelerate the Company's transformation in Quad 3.0, and pursuing value-driven industry consolidation; and (3) returning capital to shareholders through dividends and share repurchases.

### Competitive Advantages

Quad/Graphics' primary strategic goals are powered by three key competitive advantages that the Company believes distinguishes itself from its competitors: a commitment to ongoing innovation, a commitment to platform excellence, and a commitment to its people and lasting culture.

#### Commitment to Ongoing Innovation

At the forefront of innovation for more than 46 years, Quad/Graphics believes its commitment to ongoing innovation drives its vision to create a better way.

In Quad 3.0, the Company will continue to innovate through an expanded integrated marketing platform to help clients create, integrate and measure offline and online media more efficiently and effectively. One of the ways the Company will achieve this vision is through continued expansion of its BlueSoHo business, which offers multichannel marketing services with an emphasis on helping brands work smarter, produce faster and be more agile. As an independent brand, BlueSoHo also enables Quad/Graphics to capture new business among brand owners who understand the benefits of fully orchestrated cross-media programs. Specifically, BlueSoHo helps plan, produce and activate marketing campaigns in the channels most likely to drive engagement and response with the goal of turning shoppers into buyers and buyers into loyal brand advocates. To strengthen its integrated marketing platform, Quad/Graphics seeks out strategic partnerships with companies on the cutting edge of digital marketing. These partnerships bring together a company that is an expert at optimizing spend offline, with companies that are doing the same online, using robust analytics to deliver highly-relevant, consistent messages—at scale—to consumers across print and digital channels.

To further support its marketing solutions thought leadership, Quad/Graphics conducts annual quantitative research called, Customer Focus®™. This extensive survey, conducted by a third party, provides consumer insight on singular and integrated media usage. The survey reveals the unique characteristics of special demographic, generational, gender and socio-economic groups and how they consume advertising and marketing messaging, and their attitudes and engagement preferences in a number of industry segments. According to survey data, print remains a strong driver across generations. This active response to print has influenced magazine publishers to increase usage of custom product covers to enhance reader engagement and retailers who primarily use digital channels—such as online-only retailers, or electronic-retailers—to incorporate print into their marketing strategy. Further, Quad/Graphics is able to combine the insights from Customer Focus®™ and use its proprietary segmentation tool, called Accelerated Insights®, to leverage client data and create hyper-personalized online and offline campaigns. The ability to generate content that

is relevant to the consumer is one way the Company believes it can help its clients influence consumer behavior, lift response and enhance return on investment.

## Table of Contents

In Quad 3.0, the Company remains committed to innovation throughout its print manufacturing and distribution processes to better serve its clients and remain the industry's high-quality, low-cost producer. Over the last five years, Quad/Graphics has invested an average of 2.7% of its annual net sales for capital expenditures. This investment has resulted in what the Company believes is the most advanced and efficient platform in the industry and has allowed the Company to reduce the amount invested in recent years without impacting its leading technological excellence.

To improve internal processes, enhance client service levels and further drive efficiencies, the Company has consistently focused on the rapid adoption of technological innovations. In the early years, the Company integrated its imaging, manufacturing and distribution networks into a single platform using a networked information technology infrastructure. This platform—connected via Quad/Graphics' own Smartools® proprietary enterprise resource planning ("ERP") system—provides seamless, real-time information flow across sales and estimating, production planning, scheduling, manufacturing, warehousing, logistics, invoicing, reporting and customer service. In Quad 3.0, the Company extended its spirit of innovation with business process management tools that further simplify and improve existing internal workflows. This includes pricing, job specifications and client acceptance to streamlining and automating the hand-offs between departments throughout the entire order workflow through invoicing. Quad/Graphics has also applied robotic process automation to automatable tasks to streamline data processing and report generation. This allows employees to focus on value-adding tasks, while the robotic process completes the transactional, repetitive functions. Quad/Graphics also leverages artificial intelligence ("AI") where appropriate, for example in labor management, scheduling and predictive maintenance where AI is used to better predict when machine maintenance is needed.

A commitment to innovation and creating a better way to do business has also helped to expand Quad/Graphics vertically-integrated non-print capabilities, such as data management, imaging, logistics and distribution, ink manufacturing (Chemical Research\Technology), paper procurement, and equipment research and design. This approach to business gives the Company a competitive advantage in delivering lower costs for its clients, enhancing customer service levels and allowing substantial control over critical links in the overall print supply chain to help it control the quality, cost and availability of key inputs in the printing process. In addition, QuadMed, the Company's health and wellness subsidiary, was founded in 1990 to create a better way to address the Company's own employees' needs for quality, cost-effective healthcare. Today, QuadMed provides employer-sponsored healthcare solutions on a national level to employers of all sizes, including private and public sector companies. These solutions include, but are not limited to, on-site and near-site healthcare clinics, occupational health services, telemedicine, and health and wellness programs.

### Commitment to Platform Excellence

Quad/Graphics continues to invest in equipment and leading-edge technology to ensure its manufacturing platform remains the strongest and most sustainable in the printing industry and that it continues to support a vast range of traditional and digital print solutions, finishing techniques and distribution capabilities to create value for its clients in Quad 3.0. At the same time, the Company has continued to strengthen its platform by removing excess, under-utilized capacity and by consolidating work into facilities where it can achieve the greatest manufacturing and distribution efficiencies. Over the past seven years, the Company has closed 41 manufacturing plants representing nearly 13 million square feet of under-utilized production capacity. This commitment to consolidating work into fewer facilities to maximize capacity is one key way Quad/Graphics maintains platform excellence and remains the industry's high-quality, low-cost producer.

The Company has continuously invested in its print manufacturing platform through modern equipment and automation, which reduces labor costs, maximizes labor productivity and increases throughput. The Company's investment in its manufacturing platform has consistently been based on evaluating the economic useful life of the underlying equipment rather than focusing on the potential mechanical life of the equipment. This discipline is critical

in an industry in which technological change can create obsolescence well before the end of the mechanical life of equipment. To remain the industry's high-quality, low-cost producer, Quad/Graphics makes a concerted effort to treat all costs as variable and maintains a stringent focus on achieving productivity improvements and sustainable cost reductions through a variety of Continuous Improvement and Lean Enterprise programs in both manufacturing and administrative areas.

Table of Contents