

ARC Document Solutions Reports Results for Second Quarter 2018

8/2/2018

SAN RAMON, Calif., Aug. 2, 2018 /PRNewswire/ -- ARC Document Solutions, Inc. (NYSE: ARC), a leading document solutions provider to design, engineering, construction, and facilities management professionals, today reported its financial results for the second quarter ended June 30, 2018.

Financial Highlights:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| (All dollar amounts in millions, except EPS) | 2018 | 2017 | 2018 | 2017 |
| Net Sales | \$ 104.2 | \$ 102.3 | \$ 201.9 | \$ 201.0 |
| Gross Margin | 34.4 % | 33.7 % | 32.7 % | 32.5 % |
| Net income attributable to ARC | \$ 4.1 | \$ 3.6 | \$ 4.7 | \$ 5.4 |
| Adjusted net income attributable to ARC | \$ 4.1 | \$ 3.7 | \$ 4.6 | \$ 5.6 |
| Earnings per share - Diluted | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Adjusted earnings per share - Diluted | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Cash provided by operating activities | \$ 24.9 | \$ 18.5 | \$ 23.0 | \$ 25.4 |
| EBITDA | \$ 15.6 | \$ 16.1 | \$ 25.9 | \$ 28.9 |
| Adjusted EBITDA | \$ 16.2 | \$ 17.0 | \$ 27.1 | \$ 30.6 |
| Capital Expenditures | \$ 3.8 | \$ 2.9 | \$ 6.7 | \$ 4.9 |

Management Commentary

"We made definitive progress toward our strategic objectives in the second quarter, delivering growth in three out of four business lines," said Suri Suriyakumar, Chairman, President and CEO of ARC Document Solutions.

"Traditional project printing was the primary driver of sales as we continued to protect print revenues, and when coupled with our constant focus on managing costs, we added seventy basis points of improvement to our consolidated gross margin. With half of the year ahead of us, we have already achieved the lower end of our previously-announced annual EPS forecast."

"While the print market will continue to challenge us, we feel well-positioned to gain market share as our investments in sales and marketing take hold," said Mr. Suriyakumar. "Considering our current performance and our expectations for the remainder of the year, we're pleased to upgrade to our annual forecast, bringing ARC's annual EPS range to 12 to 17 cents."

"In the face of a shrinking print market, we were gratified to deliver year-over-year growth for the first time in three years, especially with the improvements in gross margin and operating cash flows that came with it," said Jorge Avalos, Chief Financial Officer. "The exceptional increase in medical costs we predicted for the second quarter had a negative impact of \$1.4 million on EBITDA and they decreased earnings per share by 2.1 cents, but despite these pressures, our results for the quarter were solid and we expect them to be sustainable for the balance of the year."

2018 Second Quarter Supplemental Information:

Net sales were \$104.2 million, a 1.9% increase compared to the second quarter of 2017.

Days sales outstanding were 52 in Q2 2018 and 52 in Q2 2017.

Architectural, engineering, construction and building owner/operators (AEC/O) customers comprised approximately 79% of our total net sales, while customers outside of construction made up approximately 21% of our total net sales.

Total number of MPS locations at the end of the second quarter has grown to approximately 10,390, a net gain of approximately 560 locations over Q2 2017.

Adjusted EBITDA excludes loss on extinguishment and modification of debt and stock-based compensation expense.

Sales from Services and Product Lines as a Percentage of Net Sales

| Services and Product Line | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|--------|------------------|--------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| CDIM | 53.3 % | 52.5 % | 53.4 % | 52.2 % |
| MPS | 32.0 % | 32.3 % | 32.1 % | 32.6 % |
| AIM | 3.0 % | 3.1 % | 3.0 % | 3.2 % |
| Equipment and supplies sales | 11.7 % | 12.1 % | 11.5 % | 12.0 % |

Outlook

The outlook for ARC Document Solutions 2018 fully-diluted annual adjusted earnings per share has been upgraded to a range of \$0.12 to \$0.17 from its previous range of \$0.10 to \$0.16; 2018 annual cash provided by operating activities remains unchanged and is projected to be in the range of \$44 to \$50 million, as is the company's 2018 annual adjusted EBITDA, which is forecast to be in the range of \$48 to \$54 million.

Teleconference and Webcast

ARC Document Solutions will hold a conference call with investors and analysts on Thursday, August 2, 2018, at 2 P.M. Pacific Time (5 P.M. Eastern Time) to discuss results for the Company's 2018 second quarter. To access the live audio call, dial 800-239-9838. International callers may join the conference by dialing +1 323-794-2551. The conference code is 7263562. A live webcast will also be made available on the investor relations page of ARC Document Solution's website at <http://ir.e-arc.com>. A recording of the webcast will be available for approximately 90 days following the call's conclusion.

About ARC Document Solutions (NYSE: ARC)

ARC Document Solutions distributes Documents and Information to facilitate communication for design, engineering and construction professionals, real estate managers and developers, facilities owners, and a variety of similar disciplines. The Company provides cloud and mobile solutions, professional services, and hardware to help its customers around the world reduce costs and increase efficiency, improve information access and control, and communicate faster, easier, and better. Follow ARC at www.e-arc.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on current opinions, estimates and assumptions of management regarding future events and the future financial performance of the Company. Words and phrases such as "definitive progress", "well-positioned to gain market share", "expectations", "outlook", "sustainable", "projected," and similar expressions identify forward-looking statements and all statements other than statements of historical fact, including, but not limited to, any projections regarding earnings, revenues and financial performance of the Company, could be deemed forward-looking statements. We caution you that such statements are only predictions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. In addition to matters affecting the construction, managed print services, document management or reprographics industries, or the economy generally, factors that could cause actual results to differ from expectations stated in forward-looking statements include, among others, the factors described in the caption entitled "Risk Factors" in Item 1A in ARC Document Solution's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, Quarterly Reports on Form 10-Q, and other periodic filings and prospectuses. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

ARC Document Solutions, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 24,738 | \$ 28,059 |
| Accounts receivable, net of allowances for accounts receivable of \$2,586 and \$2,341 | 60,689 | 57,011 |
| Inventories, net | 18,481 | 19,937 |
| Prepaid expenses | 5,168 | 4,208 |
| Other current assets | 5,056 | 5,266 |
| Total current assets | 114,132 | 114,481 |

| | | |
|--|-------------------|-------------------|
| Property and equipment, net of accumulated depreciation of \$198,045 and \$198,693 | 68,059 | 64,245 |
| Goodwill | 121,051 | 121,051 |
| Other intangible assets, net | 7,040 | 9,068 |
| Deferred income taxes | 26,219 | 28,029 |
| Other assets | 2,463 | 2,551 |
| Total assets | <u>\$ 338,964</u> | <u>\$ 339,425</u> |
| Current liabilities: | | |
| Accounts payable | \$ 25,895 | \$ 24,289 |
| Accrued payroll and payroll-related expenses | 13,834 | 12,617 |
| Accrued expenses | 16,535 | 17,201 |
| Current portion of long-term debt and capital leases | 20,785 | 20,791 |
| Total current liabilities | <u>77,049</u> | <u>74,898</u> |
| Long-term debt and capital leases | 115,394 | 123,626 |
| Other long-term liabilities | 4,500 | 3,290 |
| Total liabilities | <u>196,943</u> | <u>201,814</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| ARC Document Solutions, Inc. stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding | — | — |
| Common stock, \$0.001 par value, 150,000 shares authorized; 48,345 and 47,913 shares issued and 45,671 and 45,266 shares outstanding | 48 | 48 |
| Additional paid-in capital | 122,252 | 120,953 |
| Retained earnings | 25,226 | 20,524 |
| Accumulated other comprehensive loss | (3,367) | (1,998) |
| | <u>144,159</u> | <u>139,527</u> |
| Less cost of common stock in treasury, 2,674 and 2,647 shares | 9,350 | 9,290 |
| Total ARC Document Solutions, Inc. stockholders' equity | <u>134,809</u> | <u>130,237</u> |
| Noncontrolling interest | 7,212 | 7,374 |
| Total equity | <u>142,021</u> | <u>137,611</u> |

Total liabilities and equity

\$ 338,964 \$ 339,425

ARC Document Solutions, Inc.
 Consolidated Statements of Operations
 (In thousands, except per share data)
 (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Service sales | \$ 92,031 | \$ 89,870 | \$ 178,741 | \$ 176,834 |
| Equipment and supplies sales | 12,159 | 12,410 | 23,157 | 24,177 |
| Total net sales | 104,190 | 102,280 | 201,898 | 201,011 |
| Cost of sales | 68,355 | 67,794 | 135,878 | 135,687 |
| Gross profit | 35,835 | 34,486 | 66,020 | 65,324 |
| Selling, general and administrative expenses | 27,506 | 25,550 | 54,807 | 50,697 |
| Amortization of intangible assets | 985 | 1,082 | 1,993 | 2,197 |
| Income from operations | 7,344 | 7,854 | 9,220 | 12,430 |
| Other income, net | (20) | (22) | (101) | (41) |
| Loss on extinguishment and modification of debt | — | 40 | — | 106 |
| Interest expense, net | 1,516 | 1,594 | 2,958 | 3,149 |
| Income before income tax provision | 5,848 | 6,242 | 6,363 | 9,216 |
| Income tax provision | 1,840 | 2,522 | 1,879 | 3,748 |
| Net income | 4,008 | 3,720 | 4,484 | 5,468 |
| Loss (income) attributable to the noncontrolling interest | 66 | (84) | 218 | (48) |

| | | | | |
|---|----------|----------|----------|----------|
| Net income attributable to ARC Document Solutions, Inc. shareholders | \$ 4,074 | \$ 3,636 | \$ 4,702 | \$ 5,420 |
| <hr/> | | | | |
| Earnings per share attributable to ARC Document Solutions, Inc. shareholders: | | | | |
| Basic | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Diluted | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| <hr/> | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 44,936 | 45,792 | 44,839 | 45,716 |
| Diluted | 44,979 | 46,258 | 44,924 | 46,329 |

ARC Document Solutions, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities | | | | |
| Net income | \$ 4,008 | \$ 3,720 | \$ 4,484 | \$ 5,468 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Allowance for accounts receivable | 228 | 353 | 555 | 561 |
| Depreciation | 7,190 | 7,271 | 14,319 | 14,410 |
| Amortization of intangible assets | 985 | 1,082 | 1,993 | 2,197 |
| Amortization of deferred financing costs | 59 | 83 | 119 | 177 |
| Stock-based compensation | 574 | 816 | 1,227 | 1,553 |
| Deferred income taxes | 1,799 | 2,248 | 1,707 | 3,425 |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Deferred tax valuation allowance | (6) | 45 | 51 | 34 |
| Loss on extinguishment and modification of debt | — | 40 | — | 106 |
| Other non-cash items, net | (62) | (163) | (106) | (136) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (1,761) | (95) | (4,674) | (148) |
| Inventory | 550 | 1,026 | 1,074 | (508) |
| Prepaid expenses and other assets | (613) | (1,956) | (763) | (2,158) |
| Accounts payable and accrued expenses | 11,993 | 4,018 | 2,979 | 449 |
| Net cash provided by operating activities | 24,944 | 18,488 | 22,965 | 25,430 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (3,825) | (2,899) | (6,717) | (4,911) |
| Other | (8) | 262 | 372 | 394 |
| Net cash used in investing activities | (3,833) | (2,637) | (6,345) | (4,517) |
| Cash flows from financing activities | | | | |
| Proceeds from stock option exercises | — | 3 | — | 71 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 28 | 30 | 72 | 66 |
| Share repurchases | — | — | (60) | — |
| Contingent consideration on prior acquisitions | (61) | (81) | (114) | (151) |
| Early extinguishment of long-term debt | — | (5,650) | — | (14,150) |
| Payments on long-term debt agreements and capital leases | (5,663) | (4,106) | (11,414) | (7,914) |
| Borrowings under revolving credit facilities | 4,125 | 1,000 | 6,125 | 2,500 |
| Payments under revolving credit facilities | (8,000) | (175) | (13,875) | (300) |
| Net cash used in financing activities | (9,571) | (8,979) | (19,266) | (19,878) |
| Effect of foreign currency translation on cash balances | (770) | 63 | (675) | 330 |
| Net change in cash and cash equivalents | 10,770 | 6,935 | (3,321) | 1,365 |
| Cash and cash equivalents at beginning of period | 13,968 | 19,669 | 28,059 | 25,239 |
| Cash and cash equivalents at end of period | \$ 24,738 | \$ 26,604 | \$ 24,738 | \$ 26,604 |
| Supplemental disclosure of cash flow information | | | | |

Noncash investing and financing activities

Capital lease obligations incurred \$ 7,653 \$ 6,390 \$ 10,928 \$ 14,310

ARC Document Solutions, Inc.

Net Sales by Product Line

(In thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Service sales | | | | |
| CDIM | \$ 55,531 | \$ 53,684 | \$ 107,851 | \$ 104,942 |
| MPS | 33,330 | 33,050 | 64,797 | 65,544 |
| AIM | 3,170 | 3,136 | 6,093 | 6,348 |
| Total service sales | 92,031 | 89,870 | 178,741 | 176,834 |
| Equipment and supplies sales | 12,159 | 12,410 | 23,157 | 24,177 |
| Total net sales | \$ 104,190 | \$ 102,280 | \$ 201,898 | \$ 201,011 |

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of cash flows provided by operating activities to EBITDA and Adjusted EBITDA

(In thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows provided by operating activities | \$ 24,944 | \$ 18,488 | \$ 22,965 | \$ 25,430 |
| Changes in operating assets and liabilities | (10,169) | (2,993) | 1,384 | 2,365 |
| Non-cash expenses, including depreciation and amortization | (10,767) | (11,775) | (19,865) | (22,327) |
| Income tax provision | 1,840 | 2,522 | 1,879 | 3,748 |
| Interest expense, net | 1,516 | 1,594 | 2,958 | 3,149 |
| Loss (income) attributable to the noncontrolling interest | 66 | (84) | 218 | (48) |
| Depreciation and amortization | 8,175 | 8,353 | 16,312 | 16,607 |
| EBITDA | 15,605 | 16,105 | 25,851 | 28,924 |
| Loss on extinguishment and modification of debt | — | 40 | — | 106 |
| Stock-based compensation | 574 | 816 | 1,227 | 1,553 |
| Adjusted EBITDA | \$ 16,179 | \$ 16,961 | \$ 27,078 | \$ 30,583 |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income attributable to ARC Document Solutions, Inc. to EBITDA and Adjusted EBITDA

(In thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net income attributable to ARC Document Solutions, Inc. | \$ 4,074 | \$ 3,636 | \$ 4,702 | \$ 5,420 |
| Interest expense, net | 1,516 | 1,594 | 2,958 | 3,149 |
| Income tax provision | 1,840 | 2,522 | 1,879 | 3,748 |
| Depreciation and amortization | 8,175 | 8,353 | 16,312 | 16,607 |
| EBITDA | 15,605 | 16,105 | 25,851 | 28,924 |
| Loss on extinguishment and modification of debt | — | 40 | — | 106 |
| Stock-based compensation | 574 | 816 | 1,227 | 1,553 |
| Adjusted EBITDA | \$ 16,179 | \$ 16,961 | \$ 27,078 | \$ 30,583 |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income attributable to ARC to unaudited adjusted net income attributable to ARC

(In thousands, except per share data)

(Unaudited)

| Three Months Ended | Six Months Ended |
|--------------------|------------------|
| June 30, | June 30, |

| | 2018 | 2017 | 2018 | 2017 |
|--|----------|----------|----------|----------|
| Net income attributable to ARC Document Solutions, Inc. | \$ 4,074 | \$ 3,636 | \$ 4,702 | \$ 5,420 |
| Loss on extinguishment and modification of debt | — | 40 | — | 106 |
| Income tax benefit related to above items | — | (16) | — | (42) |
| Deferred tax valuation allowance and other discrete tax items | 72 | 51 | (77) | 79 |
| Adjusted net income attributable to ARC Document Solutions, Inc. | \$ 4,146 | \$ 3,711 | \$ 4,625 | \$ 5,563 |

Actual:

Earnings per share attributable to ARC Document Solutions, Inc. shareholders:

| | | | | |
|---|---------|---------|---------|---------|
| Basic | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Diluted | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Weighted average common shares outstanding: | | | | |
| Basic | 44,936 | 45,792 | 44,839 | 45,716 |
| Diluted | 44,979 | 46,258 | 44,924 | 46,329 |

Adjusted:

Earnings per share attributable to ARC Document Solutions, Inc. shareholders:

| | | | | |
|---|---------|---------|---------|---------|
| Basic | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Diluted | \$ 0.09 | \$ 0.08 | \$ 0.10 | \$ 0.12 |
| Weighted average common shares outstanding: | | | | |
| Basic | 44,936 | 45,792 | 44,839 | 45,716 |
| Diluted | 44,979 | 46,258 | 44,924 | 46,329 |

See Non-GAAP Financial Measures discussion below.

Non-GAAP Financial Measures

EBITDA and related ratios presented in this report are supplemental measures of our performance that are not

required by or presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These measures are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, income from operations, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating, investing or financing activities as a measure of our liquidity.

EBITDA represents net income before interest, taxes, depreciation and amortization.

We have presented EBITDA and related ratios because we consider them important supplemental measures of our performance and liquidity. We believe investors may also find these measures meaningful, given how our management makes use of them. The following is a discussion of our use of these measures.

We use EBITDA to measure and compare the performance of our operating segments. Our operating segments' financial performance includes all of the operating activities except debt and taxation which are managed at the corporate level for U.S. operating segments. We use EBITDA to compare the performance of our operating segments and to measure performance for determining consolidated-level compensation. In addition, we use EBITDA to evaluate potential acquisitions and potential capital expenditures.

EBITDA and related ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

- They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and related ratios should not be considered as measures of discretionary cash available to us to invest in business growth or to reduce our indebtedness. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and related ratios only as supplements.

Our presentation of adjusted net income and adjusted EBITDA is an attempt to provide meaningful comparisons to our historical performance for our existing and future investors. The unprecedented changes in our end markets over the past several years have required us to take measures that are unique in our history and specific to individual circumstances. Comparisons inclusive of these actions make normal financial and other performance

patterns difficult to discern under a strict GAAP presentation. Each non-GAAP presentation, however, is explained in detail in the reconciliation tables above.

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and six months ended June 30, 2018 and 2017 to reflect the exclusion of loss on extinguishment and modification of debt and changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and six months ended June 30, 2018 and 2017.

We have presented adjusted EBITDA for the three and six months ended June 30, 2018 and 2017 to exclude loss on extinguishment and modification of debt and stock-based compensation expense. The adjustment of EBITDA for these items is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

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