

ARC Reports 2020 Fourth Quarter and Full Year Results Including Annual Increase in Cash Flows

2/23/2021

SAN RAMON, CA / ACCESSWIRE / February 23, 2021 / ARC Document Solutions, Inc. (NYSE:ARC), a leading provider of document distribution and graphic production services to professionals in the design, marketing, commercial real estate, construction and related fields, today reported its financial results for the fourth quarter and full year ended December 31, 2020.

Financial Highlights:

(All dollar amounts in millions, except EPS)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|---------|-------------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Net Sales | \$ 64.3 | \$ 92.3 | \$ 289.5 | \$ 382.4 |
| Gross Margin | 32.1% | 32.8% | 32.1% | 32.7% |
| Net income attributable to ARC | \$ 1.3 | \$ 0.8 | \$ 6.2 | \$ 3.0 |
| Adjusted net income attributable to ARC | \$ 1.0 | \$ 1.4 | \$ 6.3 | \$ 6.8 |
| Earnings per share - Diluted | \$ 0.03 | \$ 0.02 | \$ 0.14 | \$ 0.07 |
| Adjusted earnings per share - Diluted | \$ 0.02 | \$ 0.03 | \$ 0.15 | \$ 0.15 |
| Cash provided by operating activities | \$ 15.5 | \$ 23.0 | \$ 54.5 | \$ 52.8 |
| EBITDA | \$ 9.9 | \$ 10.3 | \$ 43.2 | \$ 45.9 |
| Adjusted EBITDA | \$ 10.2 | \$ 11.7 | \$ 44.8 | \$ 49.4 |
| Capital Expenditures | \$ 1.4 | \$ 4.5 | \$ 6.4 | \$ 12.9 |
| Debt & Capital Leases (including current) | | | \$ 97.2 | \$ 106.2 |

Management Commentary

"In 2020, our long-standing belief that ARC can be a dynamic, healthy and profitable company at any level of sales was put to the test," said Suri Suriyakumar, Chairman, President and CEO of ARC Document Solutions. "We not only passed the test, but surpassed our own expectations for what was possible."

"We matched our 2019 annual adjusted earnings per share, increased annual cash flow from operations, held more

cash on the balance sheet than in any year prior to the recession, and averaged well over \$10 million per quarter in adjusted EBITDA in spite of a revenue decline of \$93 million. Our performance validated the extraordinary actions taken by management to protect the company, our employees, and the communities in which we work, and it also allowed us to resume our focus on returning value to our shareholders," said Mr. Suriyakumar. "While we are well aware of the disruptions still being caused by the pandemic, we are confident that the increasing availability of vaccines and the easing of economic restrictions will help us leverage our performance later in the year."

"Decisive moves within the first few weeks of the crisis accelerated operational changes and drove new sales initiatives while we reduced expenses in 2020," said Jorge Avalos, ARC's Chief Financial Officer. "As cash continued to build on the balance sheet and our capital structure remained strong, we were able to resume our dividend program in the fourth quarter, continue to reduce our debt, and repurchase shares. We do not expect to alter our capital allocation strategy in the near future, though we do expect lower sales in the first quarter as recent weather events are substantially increasing the disruptions caused by the pandemic."

2020 Fourth Quarter and Full Year Supplemental Information:

ARC has provided supplemental information to its earnings announcement in these pages to supply shareholders and analysts with additional information in advance of our quarterly conference call. As previously scheduled, the conference call will begin today, February 23, 2021 at 2:00 pm PST (5:00 pm EST) and will include brief comments followed by a question and answer period. Supplemental information will not be read on the call.

Fourth Quarter Overview

The fourth quarter of 2020 saw sales softening more than usual during the holiday months with the loss of working days exacerbated by lower activity due to economic closures and work-from-home measures in response to the pandemic. CDIM sales were pressured by sales declines in traditional printing, but were partially offset by resilience in color imaging sales for retail, education, promotional and marketing projects. MPS sales were down substantially due to continued office closures and work-from-home measures, a factor that also had a negative impact on AIM sales. The effect of the pandemic in China and the U.S. also constrained capital spending on Equipment & Supplies. Cost and operational controls that were put in place at the end of the first quarter continued to support strong performance in gross margin, earnings and cash generation.

Net Revenue

| In millions | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> |
|-------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| Total Net Revenue | \$ 289.5 | \$ 64.3 | \$ 72.4 | \$ 64.3 | \$ 88.4 | \$ 382.4 | \$ 92.3 |

In the fourth quarter 2020, net revenue declined 30.3%, or \$28.0 million, compared to the fourth quarter of 2019 due to the effects of the continuing COVID-19 pandemic, as well as the historical softness in the period due to fewer working days in the holiday months. Net revenue for full-year 2020 declined 24.3%, or \$92.9 million, year-over-year compared to the full year of 2019, also due to the pandemic.

Revenue by Business Lines

| In millions | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> |
|------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| CDIM | \$ 175.5 | \$ 38.2 | \$ 47.1 | \$ 41.1 | \$ 49.2 | \$ 205.5 | \$ 49.8 |
| MPS | \$ 79.3 | \$ 18.1 | \$ 17.6 | \$ 16.2 | \$ 27.3 | \$ 123.3 | \$ 30.2 |
| AIM | \$ 12.3 | \$ 3.1 | \$ 2.9 | \$ 2.7 | \$ 3.6 | \$ 14.1 | \$ 3.7 |
| Equipment and supplies | \$ 22.3 | \$ 4.9 | \$ 4.7 | \$ 4.4 | \$ 8.4 | \$ 39.5 | \$ 8.6 |

For the fourth quarter 2020, construction document and information management (CDIM) sales declined 23.3% compared to prior year, and for the full-year 2020 declined 14.6% year-over-year. The impact of the pandemic on CDIM was not as pronounced as other parts of our business due to the expansion of products and services beyond the construction vertical and our historical print segments that resulted from the reconfiguration of our sales and marketing functions in late-2019, as well as demand for COVID-19-related and other color signage.

For the fourth quarter 2020, managed print services (MPS) sales declined 40.1% compared to prior year, and sales for the full-year 2020 declined 35.7% year-over-year as compared to the full year of 2019. MPS sales declined due to the pandemic, particularly by the lack of workers in offices where our services are provided.

For the fourth quarter 2020, archiving and information management (AIM) sales decreased 16.2% compared to prior year, and sales for the full-year 2020 decreased 12.7% year-over-year as compared to the full year of 2019. Sales decreases in AIM were driven by reasons similar to MPS, particular the lack of workers in offices.

For the fourth quarter 2020, equipment and supplies sales declined 43.0% compared to prior year, and sales for the full-year 2020 declined 43.5% year-over-year as compared to the full year of 2019. Declines were driven primarily by constrained capital spending in China and the U.S. caused by the pandemic.

Gross Profit

In millions unless otherwise indicated

| | FYE 2020 | 4Q 2020 | 3Q 2020 | 2Q 2020 | 1Q 2020 | FYE 2019 | 4Q 2019 |
|--|----------|---------|---------|---------|---------|----------|---------|
|--|----------|---------|---------|---------|---------|----------|---------|

| | | | | | | | | | | | | | | |
|--------------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Gross Profit | \$ | 92.9 | \$ | 20.7 | \$ | 24.2 | \$ | 20.4 | \$ | 27.6 | \$ | 125.2 | \$ | 30.2 |
| Gross Margin | | 32.1% | | 32.1% | | 33.4% | | 31.8% | | 31.2% | | 32.7% | | 32.8% |

Despite the 24.3% drop in net sales due to the COVID-19 pandemic, gross margins during 2020 remained stable due to the Company's decisive moves in reducing costs within the first few weeks of the pandemic.

Selling, General and Administrative Expenses

| In millions | | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> | | | | | | |
|--|----|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|----|------|----|-------|----|------|
| Selling, general and administrative expenses | \$ | 79.0 | \$ | 18.2 | \$ | 19.2 | \$ | 17.3 | \$ | 24.3 | \$ | 107.3 | \$ | 26.4 |

Selling, general and administrative (SG&A) expenses in the fourth quarter declined 31.1% year-over-year, and for the full year 2020 declined 26.3% compared to the full year of 2019. The decreases were driven by lower sales and marketing costs related to our Q3 2019 restructuring exercise and our operational responses to the pandemic.

Net Income and Earnings Per Share

| In millions unless otherwise indicated | | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> | | | | | | |
|---|----|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|----|------|----|------|----|------|
| Net Income Attributable to ARC - GAAP | \$ | 6.2 | \$ | 1.3 | \$ | 2.8 | \$ | 1.5 | \$ | 0.7 | \$ | 3.0 | \$ | 0.8 |
| Adjusted Net Income Attributable to ARC | \$ | 6.3 | \$ | 1.0 | \$ | 2.9 | \$ | 1.2 | \$ | 1.2 | \$ | 6.8 | \$ | 1.4 |
| Earnings per share Attributable to ARC | | | | | | | | | | | | | | |
| Diluted EPS - GAAP | \$ | 0.14 | \$ | 0.03 | \$ | 0.07 | \$ | 0.03 | \$ | 0.02 | \$ | 0.07 | \$ | 0.02 |
| Adjusted Diluted EPS | \$ | 0.15 | \$ | 0.02 | \$ | 0.07 | \$ | 0.03 | \$ | 0.03 | \$ | 0.15 | \$ | 0.03 |

Increases in GAAP net income and adjusted net income attributable to ARC and GAAP and adjusted EPS in 2020 were driven by a decrease in income taxes, lower costs and expenses as a result of our Q3 2019 restructuring, as well as further cost controls put in place in response to the pandemic.

Cash Provided by Operating Activities

| In millions | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> |
|---------------------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| Cash provided by operating activities | \$ 54.5 | \$ 15.5 | \$ 12.8 | \$ 23.5 | \$ 2.8 | \$ 52.8 | \$ 23.0 |

Cash provided by operating activities in the fourth quarter 2020 decreased 32.6% year over year, and for the full-year 2020 increased 3.2% year-over-year as compared to the full year of 2019. The decline of cash flows from operations in the fourth quarter was driven by timing differences in sales and collection of those sales. The increase in cash flows from operations in 2020 was primarily a result of the sustained profitability in 2020, despite the COVID-19 pandemic, and active management of operating assets and liabilities.

EBITDA

| In millions | <u>FYE 2020</u> | <u>4Q 2020</u> | <u>3Q 2020</u> | <u>2Q 2020</u> | <u>1Q 2020</u> | <u>FYE 2019</u> | <u>4Q 2019</u> |
|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| EBITDA | \$ 43.2 | \$ 9.9 | \$ 12.1 | \$ 10.3 | \$ 10.9 | \$ 45.9 | \$ 10.3 |
| Adjusted EBITDA | \$ 44.8 | \$ 10.2 | \$ 12.5 | \$ 10.7 | \$ 11.4 | \$ 49.4 | \$ 11.7 |

Decreases in EBITDA and Adjusted EBITDA in the fourth quarter and full year were driven by lower sales, partially offset by significant declines in SG&A expenses as noted above.

Additional Information:

- Cash & cash equivalents on the balance sheet at the end of 2020 were \$55 million.
- The Company purchased 0.6 million of its own shares in the open market in the fourth quarter for \$0.8 million, and in total, purchased 2.6 million of its own shares during the full-year 2020 for \$3.2 million.
- ARC's second quarterly cash dividend of two cents for 2021 was announced on February 16, 2021 with a record date of April 30, 2021, and a payment date of May 31, 2021.
- Architectural, engineering, construction and building owner/operators (AEC/O) customers comprised approximately 69% of our total net sales, while customers outside of construction made up approximately 31% of our total net sales.
- Total number of MPS locations at the end of the fourth quarter was approximately 10,750.

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

| Services and Product Line | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|------------------------------|------------------------------------|-------|-------------------------------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| CDIM | 59.4% | 54.0% | 60.6% | 53.7% |
| MPS | 28.2% | 32.7% | 27.4% | 32.2% |
| AIM | 4.8% | 4.0% | 4.3% | 3.7% |
| Equipment and supplies sales | 7.6% | 9.3% | 7.7% | 10.4% |

Teleconference and Webcast

ARC Document Solutions will hold a conference call with investors and analysts on Tuesday, February 23, 2021, at 2 P.M. Pacific Time (5 P.M. Eastern Time) to discuss results for the Company's 2020 fourth quarter and fiscal year. To access the live audio call, dial (833) 968-2212. International callers may join the conference by dialing +1 778-560-2897. The conference code is 6694548 and will be required to dial in to the call. 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 replay of the webcast will be available on the website following the call's conclusion.

About ARC Document Solutions (NYSE: ARC)

ARC provides a wide variety of document distribution and graphic production services to facilitate communication for professionals in the design, marketing, commercial real estate, construction and related fields. 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 "expect", "do not expect to alter", "leverage our performance later in the year", 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 markets we serve, or the economy generally, factors that could cause actual results to differ from expectations stated in forward-looking statements include, among others, the effects of the COVID-19 pandemic on the economy and our business, and additional 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, 2019, 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.

Contact Information:

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 925-949-5114

ARC Document Solutions, Inc.
 Consolidated Balance Sheets
 (In thousands, except per share data)
 (Unaudited)

| | December 31, <u>2020</u> | December 31, <u>2019</u> |
|---|--------------------------------|--------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 54,950 | \$ 29,425 |
| Accounts receivable, net of allowances for accounts receivable of \$2,357 and \$2,099 | 36,279 | 51,432 |
| Inventories, net | 9,474 | 13,936 |
| Prepaid expenses | 4,065 | 4,783 |
| Other current assets | <u>3,979</u> | <u>6,807</u> |
| Total current assets | 108,747 | 106,383 |
| Property and equipment, net of accumulated depreciation of \$219,834 and \$210,849 | 57,830 | 70,334 |
| Right-of-use assets from operating leases | 37,859 | 41,238 |
| Goodwill | 121,051 | 121,051 |
| Other intangible assets, net | 515 | 1,996 |
| Deferred income taxes | 17,261 | 19,755 |
| Other assets | <u>2,175</u> | <u>2,400</u> |
| Total assets | <u>\$ 345,438</u> | <u>\$ 363,157</u> |
| Current liabilities: | | |
| Accounts payable | \$ 18,661 | \$ 23,231 |
| Accrued payroll and payroll-related expenses | 10,088 | 14,569 |
| Accrued expenses | 17,783 | 20,440 |
| Current operating lease liabilities | 12,158 | 11,060 |
| Current portion of long-term debt and finance leases | <u>17,557</u> | <u>17,075</u> |
| Total current liabilities | 76,247 | 86,375 |
| Long-term operating lease liabilities | 33,561 | 37,260 |
| Long-term debt and finance leases | 79,679 | 89,082 |
| Other long-term liabilities | <u>1,615</u> | <u>400</u> |
| Total liabilities | <u>191,102</u> | <u>213,117</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; 49,422 and 49,189 shares issued and 42,792 and 45,228 shares outstanding | 49 | 49 |
| Additional paid-in capital | 127,755 | 126,117 |
| Retained earnings | 37,308 | 31,969 |
| Accumulated other comprehensive loss | <u>(2,787)</u> | <u>(3,357)</u> |
| | 162,325 | 154,778 |
| Less cost of common stock in treasury, 6,630 and 3,960 shares | <u>14,657</u> | <u>11,410</u> |
| Total ARC Document Solutions, Inc. stockholders' equity | 147,668 | 143,368 |
| Noncontrolling interest | <u>6,668</u> | <u>6,672</u> |
| Total equity | <u>154,336</u> | <u>150,040</u> |
| Total liabilities and equity | <u>\$ 345,438</u> | <u>\$ 363,157</u> |

ARC Document Solutions, Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | | Twelve Months Ended | |
|---|--------------------|---------------|---------------------|-----------------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| Service sales | \$ 59,470 | \$ 83,740 | \$ 267,159 | \$ 342,912 |
| Equipment and supplies sales | 4,874 | 8,576 | 22,308 | 39,503 |
| Total net sales | 64,344 | 92,316 | 289,467 | 382,415 |
| Cost of sales | 43,670 | 62,072 | 196,558 | 257,246 |
| Gross profit | 20,674 | 30,244 | 92,909 | 125,169 |
| Selling, general and administrative expenses | 18,200 | 26,379 | 79,016 | 107,260 |
| Amortization of intangible assets | 147 | 661 | 1,500 | 3,141 |
| Restructuring expense | - | 349 | - | 660 |
| Income from operations | 2,327 | 2,855 | 12,393 | 14,108 |
| Other income, net | (13) | (18) | (57) | (71) |
| Loss on extinguishment and modification of debt | - | 389 | - | 389 |
| Interest expense, net | 797 | 1,160 | 3,908 | 5,226 |
| Income before income tax provision | 1,543 | 1,324 | 8,542 | 8,564 |
| Income tax provision | 260 | 502 | 2,749 | 5,724 |
| Net income | 1,283 | 822 | 5,793 | 2,840 |
| (Income) loss attributable to noncontrolling interest | (30) | 2 | 395 | 175 |
| Net income attributable to ARC Document Solutions, Inc. shareholders | <u>\$ 1,253</u> | <u>\$ 824</u> | <u>\$ 6,188</u> | <u>\$ 3,015</u> |
| Earnings per share attributable to ARC Document Solutions, Inc. shareholders: | | | | |

| | | | | |
|---|---------|---------|---------|---------|
| Basic | \$ 0.03 | \$ 0.02 | \$ 0.14 | \$ 0.07 |
| Diluted | \$ 0.03 | \$ 0.02 | \$ 0.14 | \$ 0.07 |
| Weighted average common shares outstanding: | | | | |
| Basic | 42,648 | 44,670 | 42,925 | 44,997 |
| Diluted | 42,771 | 44,725 | 43,021 | 45,083 |

ARC Document Solutions
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Three Months Ended | | Twelve Months Ended | |
|---|--------------------|---------|---------------------|----------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| Cash flows from operating activities | | | | |
| Net income | \$ 1,283 | \$ 822 | \$ 5,793 | \$ 2,840 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Allowance for accounts receivable | 226 | 160 | 932 | 590 |
| Depreciation | 7,458 | 7,163 | 28,860 | 28,763 |
| Amortization of intangible assets | 147 | 661 | 1,500 | 3,141 |
| Amortization of deferred financing costs | 17 | 46 | 65 | 208 |
| Stock-based compensation | 238 | 605 | 1,571 | 2,459 |
| Deferred income taxes | 278 | 473 | 2,697 | 5,157 |
| Deferred tax valuation allowance | (192) | (64) | (170) | 51 |
| Restructuring expense, non-cash portion | - | 102 | - | 148 |
| Loss on extinguishment and modification of debt | - | 389 | - | 389 |
| Other non-cash items, net | (225) | (235) | 1 | (444) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 5,104 | 6,377 | 14,414 | 6,119 |
| Inventory | 1,097 | 1,549 | 4,566 | 2,791 |
| Prepaid expenses and other assets | 3,962 | 4,734 | 14,727 | 11,828 |
| Accounts payable and accrued expenses | (3,930) | 205 | (20,478) | (11,259) |
| Net cash provided by operating activities | 15,463 | 22,987 | 54,478 | 52,781 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (1,387) | (4,479) | (6,440) | (12,885) |
| Other | 262 | 299 | 512 | 641 |
| Net cash used in investing activities | (1,125) | (4,180) | (5,928) | (12,244) |
| Cash flows from financing activities | | | | |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 12 | 24 | 67 | 133 |
| Share repurchases | (815) | (874) | (3,247) | (2,060) |

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Contingent consideration on prior acquisitions | - | - | - | (3) |
| Payments on long-term debt agreements and capital leases | (4,699) | (54,106) | (14,935) | (71,657) |
| Borrowings under revolving credit facilities | 15,000 | 51,500 | 60,000 | 71,250 |
| Payments under revolving credit facilities | (20,000) | (7,000) | (65,000) | (38,000) |
| Payment of deferred financing costs | - | (96) | - | (96) |
| Dividends paid | - | - | (870) | - |
| Net cash used in financing activities | <u>(10,502)</u> | <u>(10,552)</u> | <u>(23,985)</u> | <u>(40,433)</u> |
| Effect of foreign currency translation on cash balances | <u>772</u> | <u>367</u> | <u>960</u> | <u>(112)</u> |
| Net change in cash and cash equivalents | 4,608 | 8,622 | 25,525 | (8) |
| Cash and cash equivalents at beginning of period | <u>50,342</u> | <u>20,803</u> | <u>29,425</u> | <u>29,433</u> |
| Cash and cash equivalents at end of period | <u>\$ 54,950</u> | <u>\$ 29,425</u> | <u>\$ 54,950</u> | <u>\$ 29,425</u> |
| Supplemental disclosure of cash flow information: | | | | |
| Noncash financing activities: | | | | |
| Finance lease obligations incurred | \$ 568 | \$ 4,047 | \$ 10,192 | \$ 17,057 |
| Operating lease obligations incurred | \$ 2,948 | \$ 3,471 | \$ 7,530 | \$ 6,728 |

ARC Document Solutions, Inc.
Net Sales by Product Line
(In thousands)
(Unaudited)

| | Three Months Ended | | Twelve Months Ended | |
|------------------------------|--------------------|------------------|---------------------|-------------------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| Service Sales | | | | |
| CDIM | \$ 38,195 | \$ 49,835 | \$ 175,532 | \$ 205,536 |
| MPS | 18,133 | 30,187 | 79,321 | 123,279 |
| AIM | <u>3,142</u> | <u>3,718</u> | <u>12,306</u> | <u>14,097</u> |
| Total services sales | 59,470 | 83,740 | 267,159 | 342,912 |
| Equipment and supplies sales | <u>4,874</u> | <u>8,576</u> | <u>22,308</u> | <u>39,503</u> |
| Total net sales | <u>\$ 64,344</u> | <u>\$ 92,316</u> | <u>\$ 289,467</u> | <u>\$ 382,415</u> |

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 | | Twelve Months Ended | |
|---|--------------------|-----------|---------------------|-----------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| Cash flows provided by operating activities | \$ 15,463 | \$ 22,987 | \$ 54,478 | \$ 52,781 |
| Changes in operating assets and liabilities | (6,233) | (12,865) | (13,229) | (9,479) |

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Non-cash expenses | (342) | (1,476) | (5,096) | (8,558) |
| Income tax provision | 260 | 502 | 2,749 | 5,724 |
| Interest expense, net | 797 | 1,160 | 3,908 | 5,226 |
| (Income) loss attributable to noncontrolling interest | (30) | 2 | 395 | 175 |
| EBITDA | 9,915 | 10,310 | 43,205 | 45,869 |
| Loss on extinguishment and modification of debt | - | 389 | - | 389 |
| Restructuring expense | - | 349 | - | 660 |
| Stock-based compensation | 238 | 605 | 1,571 | 2,459 |
| Adjusted EBITDA | <u>\$ 10,153</u> | <u>\$ 11,653</u> | <u>\$ 44,776</u> | <u>\$ 49,377</u> |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.

Non-GAAP Measures

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

(In thousands)
(Unaudited)

| | Three Months Ended | | Twelve Months Ended | |
|--|--------------------|------------------|---------------------|------------------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| Net income attributable to ARC Document Solutions, Inc. shareholders | \$ 1,253 | \$ 824 | \$ 6,188 | \$ 3,015 |
| Interest expense, net | 797 | 1,160 | 3,908 | 5,226 |
| Income tax provision | 260 | 502 | 2,749 | 5,724 |
| Depreciation and amortization | 7,605 | 7,824 | 30,360 | 31,904 |
| EBITDA | 9,915 | 10,310 | 43,205 | 45,869 |
| Loss on extinguishment and modification of debt | - | 389 | - | 389 |
| Restructuring expense | - | 349 | - | 660 |
| Stock-based compensation | 238 | 605 | 1,571 | 2,459 |
| Adjusted EBITDA | <u>\$ 10,153</u> | <u>\$ 11,653</u> | <u>\$ 44,776</u> | <u>\$ 49,377</u> |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income attributable to ARC Document Solutions, Inc. shareholders to unaudited adjusted net income attributable to ARC Document Solutions, Inc.

(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | Twelve Months Ended |
|--|--------------------|---------------------|
| | December 31, | December 31, |

| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
|---|-----------------|-----------------|-----------------|-----------------|
| Net income attributable to ARC Document Solutions, Inc. shareholders | \$ 1,253 | \$ 824 | \$ 6,188 | \$ 3,015 |
| Loss on extinguishment and modification of debt | - | 389 | - | 389 |
| Restructuring expense | - | 349 | - | 660 |
| Income tax benefit related to above items | | (192) | - | (273) |
| Deferred tax valuation allowance and other discrete tax items | (240) | 67 | 118 | 3,006 |
| Unaudited adjusted net income attributable to ARC Document Solutions, Inc. | <u>\$ 1,013</u> | <u>\$ 1,437</u> | <u>\$ 6,306</u> | <u>\$ 6,797</u> |
| Actual: | | | | |
| Earnings per share attributable to ARC Document Solutions, Inc. shareholders: | | | | |
| Basic | <u>\$ 0.03</u> | <u>\$ 0.02</u> | <u>\$ 0.14</u> | <u>\$ 0.07</u> |
| Diluted | <u>\$ 0.03</u> | <u>\$ 0.02</u> | <u>\$ 0.14</u> | <u>\$ 0.07</u> |
| Weighted average common shares outstanding: | | | | |
| Basic | 42,648 | 44,670 | 42,925 | 44,997 |
| Diluted | 42,771 | 44,725 | 43,021 | 45,083 |
| Adjusted: | | | | |
| Earnings per share attributable to ARC Document Solutions, Inc. shareholders: | | | | |
| Basic | <u>\$ 0.02</u> | <u>\$ 0.03</u> | <u>\$ 0.15</u> | <u>\$ 0.15</u> |
| Diluted | <u>\$ 0.02</u> | <u>\$ 0.03</u> | <u>\$ 0.15</u> | <u>\$ 0.15</u> |
| Weighted average common shares outstanding: | | | | |
| Basic | 42,648 | 44,670 | 42,925 | 44,997 |
| Diluted | 42,771 | 44,725 | 43,021 | 45,083 |

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. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

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 twelve months ended December 31, 2020 and 2019 to reflect the exclusion of loss on extinguishment and modification of debt, restructuring expense, 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 twelve months ended December 31, 2020 and 2019.

We have presented adjusted EBITDA for the three and twelve months ended December 31, 2020 and 2019 to exclude loss on extinguishment and modification of debt, restructuring expense, 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.

SOURCE: ARC Document Solutions

View source version on **accesswire.com**:

<https://www.accesswire.com/631248/ARC-Reports-2020-Fourth-Quarter-and-Full-Year-Results-Including-Annual-Increase-in-Cash-Flows>