



## Overview

Cimpress' Q1 FY2020 financial results reflect several changes to our reporting. This guide provides details on what they are, why we made them, and where investors should update their historical information to reflect the changes.

In summary, these changes are:

- **Segment recast:** The move of three businesses previously presented in our All Other Businesses segment to our Vistaprint segment. This is retroactively recast in our Q1 earnings document and financial and operating metrics on a quarterly basis back to Q1 FY2017.
- **Change to segment profit metric:** Previously our segment profit metric was adjusted net operating profit (NOP) and now it is adjusted EBITDA. This is retroactively recast in our Q1 earnings document and financial and operating metrics on a quarterly basis back to Q1 FY2017. We will no longer report adjusted net operating profit on either a segment or consolidated basis.
- **New lease accounting standard:** The adoption of ASC 842 lease accounting standard, which drives changes to our balance sheet and also, to a lesser extent, our income and cash flow statements. This change was adopted starting in Q1 FY2020, and has not been recast historically.

Details on the changes are below.

## Move of three businesses from All Other Businesses segment to Vistaprint segment

As previously described, during Q1 FY2020, three of our businesses (Vistaprint Corporate Solutions, Vistaprint Japan and Vistaprint India) began reporting into our Vistaprint business. We have reflected this internal operational change into our financial results, and have recast them back to Q1 FY2017. This move does not affect consolidated financial results, but it does shift revenue and losses from our All Other Businesses segment to our Vistaprint segment.

As a result, you will see in our Q1 FY2020 documents that from Q1 FY2017 through Q4 FY2019, segment revenue and segment profitability have changed for these two segments. Additionally, because some of these businesses have fulfillment relationships with one another, inter-segment revenue has changed for these two segments, and the inter-segment elimination line that reconciles segment revenue to consolidated revenue has changed (there is no change to consolidated revenue). For example, in the past, when Vistaprint previously fulfilled orders on behalf of Vistaprint Corporate Solutions, the cost of fulfilling was recorded as both inter-segment revenue and cost of goods sold in the Vistaprint segment, and was also recorded as cost of goods sold in the All Other Businesses segment (thus transferring the cost from the Vistaprint segment to the All Other Businesses segment). Now that these are combined into a single reportable segment, the previously reported inter-segment revenue for transactions like this is eliminated (retrospectively recast to Q1 FY2017). Year-over-year revenue growth rates are recast back to Q1 FY2018. These are minor changes to our Vistaprint reportable segment, but meaningful changes for the All Other Businesses reportable segment.

We have updated several connected metrics for Vistaprint and the All Other Businesses segments (no change to consolidated information): depreciation and amortization, capital expenditures, capitalized software and website development costs. Additionally, Vistaprint advertising expense and Vistaprint advertising as a percent of revenue now reflects the addition of these three businesses. All of these have been recast back to Q1 FY2017.

Finally, a byproduct of this movement is that we have stopped reporting Vistaprint TTM bookings from new and repeat customers, as we don't combine this information for the businesses that have moved into the Vistaprint segment. This was not a dynamic metric anyway from one period to the next, and is somewhat disconnected from the quarterly revenue trends in Vistaprint.

## **Change in underlying metric for segment profitability**

The financial metric that we use to hold our businesses accountable on an annual basis is unlevered free cash flow. SEC rules do not allow a measure of cash flow to be used as the primary measure of segment profit. Historically, we have reported segment profit based on adjusted net operating profit; however, this is not a direct input to unlevered free cash flow. We have changed our measure of segment profit to adjusted EBITDA. We believe this change simplifies both our internal and external reporting, while also increasing the focus on a profitability metric that is a direct and significant component of our internal operating measure of performance, to our steady-state free cash flow analysis that we report annually, and to our estimates of intrinsic value per share. Adjusted EBITDA is also a direct input (among other drivers of cash flow and invested capital) in many of our business-specific long-term incentive programs.

As a result, you will see in our Q1 FY2020 documents that from Q1 FY2017 through Q4 FY2019, the profit measure for each of our segments and our central and corporate costs has changed. The primary difference between the metric we previously reported ("segment profit") and the revised metric ("segment EBITDA") is depreciation and amortization. The prior adjusted NOP-based metric only removed amortization of acquired intangibles, and the new adjusted EBITDA-based metric removes all depreciation and amortization, except for depreciation expense related to our Waltham, MA lease, which we treat in our historical results as operating expense. The new adjusted EBITDA-based segment metric does include the cost of long-term incentive programs, including share-based compensation, just as the prior adjusted NOP-based metric did. For segment purposes, the accounting cost of PSUs is assumed to be at the grant value with any additional accounting cost held at a corporate level.

We believe that this reporting change is one more step in simplifying our reporting and is completely consistent with what our businesses and executives use to run the business. We also believe it will be more helpful for modeling cash flows by segment.

As a result of the segment profit change above, we will no longer report adjusted NOP. Starting with the results of Q1 FY2020, the only non-GAAP measure that we show in comparison to GAAP operating income will be adjusted EBITDA.

We will continue to show return on invested capital (ROIC), which is based on an after-tax adjusted operating profit measure.

## **Adoption of new lease accounting standard**

On July 1, 2019, we adopted ASC 842, Leases, using a modified retrospective transition approach. Under the modified retrospective approach, we recognized any cumulative impacts as of the adoption date within retained earnings on our consolidated balance sheet. This change is reflected in our Q1 FY2020 results; we did not adjust any prior-period results. The two most significant changes under the new standard are as follows:

- **Change in classification of our build-to-suit leases:** our Waltham, Massachusetts and Dallas, Texas leases are no longer classified as capital leases, but now as operating leases. This change impacts the balance sheet classification, but also the related presentation of expense in our consolidated statement of operations and cash flows.
- **Balance sheet presentation of operating leases:** under the new standard, we now recognize all operating leases in new financial statement lines on our balance sheet, which previously were recognized off-balance sheet. These changes had no significant impact to our consolidated statement of operations and cash flows.

Below we quantify the impacts related to these changes.

The following table summarizes the cumulative effect of adopting the new lease standard as of the adoption date of July 1, 2019:

Consolidated Balance Sheet (in \$ thousands)	As reported at June 30, 2019	ASC 842 adjustments	Adjusted balance at July 1, 2019
<b>Assets</b>			
Prepaid expenses and other current assets .....	\$ 78,065	\$ (59)	\$ 78,006
Operating lease assets, net .....	—	169,668	169,668
Property, plant and equipment, net .....	490,755	(121,254)	369,501
Deferred tax assets .....	59,906	(817)	59,089
<b>Liabilities and Shareholders' Equity</b>			
Other current liabilities .....	\$ 27,881	\$ (12,569)	\$ 15,312
Operating lease liabilities, current .....	—	37,342	37,342
Operating lease liabilities, non-current .....	—	139,041	139,041
Lease financing obligation .....	112,096	(112,096)	—
Other liabilities .....	53,716	(7,169)	46,547
Retained earnings .....	537,422	2,989	540,411

On July 1, 2019, for our build-to-suit leases, we reversed the existing lease asset included within property, plant and equipment, net of \$121.3 million, the related financing lease obligation of \$124.7 million, and associated accrued rent of \$0.4 million. This balance sheet reversal caused an \$0.8 million decrease to deferred tax assets, resulting in a net increase to retained earnings of \$3.0 million. We also recognized operating lease assets of \$169.7 million and operating lease liabilities of \$176.4 million. The difference between the operating lease assets and liabilities resulted from the reclassification of deferred rent and tenant allowance balances presented in other financial statement lines of the consolidated balance sheet, which are included in the operating lease assets.

Historically, rent for the Waltham, Massachusetts build-to-suit lease was reflected in our income statement in two places: partly in operating expense and partly in interest expense. In our historical non-GAAP reporting, we burdened our profitability measures by the portion recorded in interest expense, since we view the total amount as rent expense. Adopting the new lease accounting standard greatly simplifies this, because all rent will be reflected in our operating expense going forward. Because we do not retrospectively recast the new leasing standard in our historical financial results, you will continue to see the interest expense associated with our build-to-suit lease in periods through Q4 FY2019, but you will not see it from Q1 FY2020 forward. For the first quarter of fiscal year 2020, the change in lease classification resulted in a reduction to operating income within our consolidated statement of operations of \$1.9 million, with an offsetting reduction to interest expense.

The payments for our historical Waltham build-to-suit lease were primarily reflected in our operating cash flow and adjusted free cash flow, however, about \$1.0 million of payments per quarter from Q2 FY2016 to Q4 FY2019 were recorded in cash from financing activities (in payments of capital lease obligations). From Q1 FY2020 forward, all of these payments will be reflected in operating cash flow and adjusted free cash flow.

Adoption of the new accounting standard has no impact on the definition of indebtedness in our debt covenants.

### Summary

We appreciate that these changes will create some housekeeping work for our investors and analysts in order to ensure historical models accurately reflect the changes. **To make this easier, any change in historically reported information is highlighted in yellow in the Q1 FY2020 financial and operating metrics posted on [ir.cimpress.com](http://ir.cimpress.com) in the same manner as this sentence.**

If you have any questions about these changes and how they should be reflected in the historical results you track, please email Meredith Burns or Julie McMahan at [ir@cimpress.com](mailto:ir@cimpress.com).