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Q4 2021 Deluxe Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) Today's call is being recorded.

We will begin with opening remarks and introductions. At this time, I'd like to turn the conference over to your host, Vice President of Investor Relations, Tom Morabito. Please go ahead.

Thomas C. Morabito *Deluxe Corporation - VP of IR*

Thank you, operator, and welcome to the Deluxe Fourth Quarter and Full Year 2021 Earnings Call. Joining me on today's call is Barry McCarthy, our President and Chief Executive Officer; and Scott Bomar, our Chief Financial Officer. At the end of today's prepared remarks, we will take questions.

Before we begin and as seen on this slide, I'd like to remind everyone that comments made today regarding management's intentions, projections, financial estimates or expectations about the company's future strategy or performance are forward-looking in nature as defined in the Private Securities Litigation Reform Act of 1995. These comments are subject to risks and uncertainties, including, without limitation, risks related to COVID, the risk that the company's recent acquisition of First American Payment Systems or any other acquisitions does not produce anticipated results or synergies and the risk that any future acquisitions or divestitures will not be consummated. Any of these risks and uncertainties could cause our actual results to differ materially from our projections. Additional information about factors that may cause our actual results to differ from projections is contained in our Form 10-K for the year ended December 31, 2021, and in other company SEC filings.

On the call today, we will discuss non-GAAP financial measures, including adjusted EBITDA and free cash flow. In our press release, our presentation and our filings with the SEC, you will find additional disclosures regarding the non-GAAP measures including reconciliations of these measures to the most comparable measures under U.S. GAAP.

Now I'll turn it over to Barry.

Barry C. McCarthy *Deluxe Corporation - President, CEO & Director*

Thanks, Tom. And good morning, everyone. Deluxe delivered strong and historic 2021 results. We reported full year sales-driven growth the first time in nearly a decade, along with adjusted EBITDA margins of over 20%. We promised this outcome in 2020 and affirmed it again last February in our 2021 guidance.

Our fourth quarter was especially strong as we delivered sales-driven growth in all 4 segments. In short, our transformation into a sales-driven trusted payments and business technology company is real, and our One Deluxe sales model works.

During the quarter, Payments performance was driven by the positive results from First American and growth in our digital payments and receivables businesses. Importantly, for the first time in our 106-year history, we expect Payments to equal Checks as our largest business by revenue as we exit 2022.

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First American has 13% year-over-year revenue growth in the quarter, once again exceeding our expectations. First American is clearly benefiting from the Deluxe halo, our strong reputation, solid balance sheet and deep customer relationships. The Deluxe halo is real. And by plugging First American into our One Deluxe sales model, we're accelerating their growth.

Cloud growth was driven by data-driven marketing, promotional solutions benefited from the implementation of key wins from earlier in the year, and Checks performance was driven primarily by new competitive wins and business checks.

Before I go into the highlights for the quarter and year, I want to acknowledge my fellow Deluxers for their continued hard work and commitment to our customers in what was once again a challenging year due to COVID and more. Our significant progress on our transformation would not be happening without their dedication and unwavering commitments.

Now to the consolidated highlights for the quarter. Revenue was \$571 million, up 25.5% year-over-year. Not including the positive impact of First American, sales-driven revenue was up 6.8%. This was the second strongest quarterly performance since 2012. Adjusted EBITDA margin was 20.5%, which was in line with our expectations.

For full year 2021, revenue was \$2 billion, up 12.9% year-over-year, not including the impact of First American, and revenue was up 2%. Adjusted EBITDA margin was 20.2%, down slightly from last year's 20.4%. In 2021, we also maintained our commitment to ongoing financial discipline and to maintaining a healthy balance sheet, which Scott will touch on in a moment.

Moving on to some segment revenue highlights. For the fourth quarter, our Payments segment grew 114% year-over-year driven by the performance of First American. Excluding First American, revenue increased more than 5% with growth in our other major businesses, particularly receivables, payroll and HR. Our payables-as-a-service offerings which include our Deluxe Payment Exchange and Medical Payment Exchange, continue to experience strong growth.

Next, Cloud Solutions had another solid quarter, growing nearly 6% year-over-year. Importantly, excluding business exits from 2020, Cloud's growth would have been nearly 11% for the quarter. Cloud's performance benefited from sales wins and positive impacts of a recovering economy and our data-driven marketing business, or DDM.

Now on to our Promotional Solutions segment. Promotional Solutions had a strong quarter, improving nearly 9% year-over-year, positively impacted by the PNC deal we announced earlier in 2021. PNC is a great example of the One Deluxe strategy as we're now providing multiple products to the nation's eighth largest bank after initially only providing 1.

Finally, our very profitable cash-generating Check business also had a strong quarter, growing just over 6% year-over-year, which is significantly better than long-term industry trends. The performance was largely driven by new wins, solid growth from business checks and the successful onboarding of new clients.

Next, I'd like to take a moment to reflect on what was a momentous 2021 as we continue our transformation that began in late 2019. As I mentioned, our One Deluxe model works. We reported full year sales-driven growth for the first time in nearly 10 years. We're very proud of this achievement. This was my promise when I became CEO, to grow our Deluxe portfolio of products and to sell more to both existing and new customers.

As further evidence of the success of One Deluxe, in 2021, we achieved the third consecutive year of record sales performance. In 2021, we sold 4 of the top 10 deals in the last 10 years. Since beginning the One Deluxe approach late in 2019, we closed 12 of the top 20 deals of the last 10 years, and closed the single largest deal in the company's history.

Now let me touch on some of the key wins during the quarter. In Payments, during the fourth quarter, we signed one of the largest health care payers in the United States, to our Medical Payment Exchange solution, or MPX. This company is the fourth payer in 2021, they committed to issuing payments through MPX. And our solution solved for their major strategic goal of moving to electronic payments. MPX digitizes the disbursement of health care payments, including explanation of benefits, saving time and expense for the customer.

Another key win was with Melio, a fast-growing payment company within investments and partnerships with some of the major players in the tech world. Melio focuses on giving small businesses a way to digitally manage their B2B payments and receivables that will be used in the Deluxe Payment Exchange or DPX, to send B2B checks digitally to participating lockboxes.

In our Cloud business, a key win was at the large real estate financing customer. Here, we were able to solidify its direct marketing business through an optimization approach designed to analyze recent data-driven marketing campaign responses. Cloud also won a contract with Pentagon Federal Credit Union. This exciting strategic partnership will help test and facilitate member retention strategies with the nation's third largest credit union with \$25 billion in assets and over 2.3 million members.

At our Checks business, we recently announced 2 significant value-creating developments. First, we're installing new HP printers to augment our Check and Promotional Solutions segments with digital and print on-demand technology. These new capabilities will help manage fixed costs, enable us to quickly build the new products and implement new customer requirements faster, creating new revenue opportunities. With this technology, we have already expanded premium Check and overall print design options.

Second, this long-term investment has enabled us to win one of the largest nonbank distributors of personal checks, The Bradford Exchange. The Bradford Exchange provides innovative high-quality art, in a variety of collectible and consumer products, including checks, with millions of repeat customers. We won Bradford away from their long-term supplier, our chief check competitor. We are now well positioned to win even more.

Another significant highlight of 2021 and consistent with our strategy to make meaningful platform acquisitions. We made the largest acquisition in our history, First American. First American gave us an immediate leadership position in a strong secular growth market complementary to our existing businesses. First American also brought us a platform on which we can further grow and gain scale advantage, driving future leverage and positioning us for revenue and profit growth going forward.

As I mentioned earlier, the Deluxe halo is real. Our strong trusted reputation, excellent balance sheet and deep customer relationships provide a strong foundation from which First American can grow. We simply plugged First American into our One Deluxe model, and it works. And it's working really well.

First American was historically a low mid-single-digit revenue growth business. Since it is part of One Deluxe, First American has been growing double digits, which is better than our expectations. Additionally, First American is already successfully selling Deluxe products like HR payroll, payables, receivables and web hosting into their base, magnifying our success.

As further evidence of the One Deluxe halo and One Deluxe success, First American closed 3 times as many financial institutions in the back half of the year as they would normally. Cross-selling to approximately 4,000 financial institutions and 4 million small business customers is not limited just to First American. We achieved significant telesales success with increases in average order value and items per order across the company in addition to the enterprise-level wins I mentioned earlier.

One Deluxe works and our transformation is real.

In summary, Deluxe delivered strong fourth quarter and full year results, furthering our transformation into a payments company just as we promised. To recap, during the year, we delivered the following: first, we reported sales-driven full year revenue growth for the first time in nearly a decade, more than replacing secular check declines with profitable new and sustainable revenue. Second, we completed the largest acquisition in our history in the second quarter, First American, giving us a strong market position.

First American is performing well above expectations, proving the One Deluxe model works and the Deluxe halo is real. Third, all 4 segments demonstrated sales-driven growth in the fourth quarter. Fourth, we expect that as we exit 2022, Payments will equal the Check business in terms of revenue, a first in our long history and a critical milestone in our transformation. And finally, even with COVID, inflationary, supply chain and labor pressures, we're driving transformation. We said what we would do, and we did what we said.

We're looking forward to continuing our revenue momentum into 2022 as we add new sell-through partners in Payments and Cloud,

continue to innovate and grow our pipeline and actively manage the portfolio.

Now I'll turn it over to Scott, who will provide more details on our financial performance.

Scott C. Bomar *Deluxe Corporation - Senior VP & CFO*

Thank you, Barry, and good morning, everyone. Let's go through the consolidated highlights for the quarter and year before moving on to the segments. For the fourth quarter, we posted total revenue of \$570.6 million, up 25.5% year-over-year. Not including First American, revenue came in at \$485.5 million, up 6.8% year-over-year. We reported fourth quarter GAAP net income of \$13.8 million or \$0.32 per share in the quarter. Compared to the prior year fourth quarter, GAAP net income was impacted by \$13.7 million in acquisition amortization as well as increased interest expense, both related to the First American acquisition. We also incurred increased tax expense related to the repatriation of \$85.3 million of cash from our Canadian operations.

Adjusted EBITDA came in at \$117.1 million while adjusted EBITDA margin was 20.5%, down from 20.9% in last year's fourth quarter. Fourth quarter adjusted EBITDA was impacted by planned technology investments and inflationary pressures, offset by pricing actions and operating leverage from strong revenue growth. Fourth quarter adjusted EPS came in at \$1.26, down from \$1.38 in last year's fourth quarter. This included an \$0.11 per share impact from the previously mentioned cash repatriation.

For the full year, we posted total revenue of \$2.02 billion, up 12.9% year-over-year. Not including First American, revenue came in at \$1.83 billion, up 2% year-over-year at the high end of our guidance range. We reported full year GAAP net income of \$62.8 million or \$1.45 per share for the year. On a GAAP basis, the First American acquisition was dilutive due to \$29.5 million in acquisition amortization as well as \$18.9 million in transaction costs. The incremental interest expense resulting from the acquisition was offset by the operations of First American.

Full year adjusted EBITDA was \$407.8 million, and adjusted EBITDA margin was 20.2%, down slightly from last year's 20.4% due primarily to business mix. Full year adjusted EPS came in at \$4.88, down from \$5.08 in 2020. As mentioned in the quarterly results, EPS was impacted by incremental tax associated with the repatriation of cash from our Canadian operations as well as a higher share count. First American was slightly accretive to full year adjusted EPS.

Now turning to our segment details. Payments grew fourth quarter revenue of 114.5% year-over-year, to \$167.3 million, largely driven by the acquisition of First American and sales-driven growth for stand-alone Deluxe. Excluding First American, Payments revenue increased 5.4% year-over-year. In addition to First American's strong performance that Barry mentioned, we experienced growth in our core Payments businesses.

Including First American, adjusted EBITDA increased 93.8% in the quarter and adjusted EBITDA margin was 20.6%, down 220 basis points due to inflationary pressure in our lockbox business, partially offset by price increases as well as increased investments in IT, sales and marketing. First American was slightly accretive to Payments adjusted EBITDA margin for the quarter.

With the addition of First American, our Payments segment has more than doubled in size. As Barry mentioned, this is an important milestone in our transformation in becoming a payments company. But once again, we expect Payments to equal Checks as our largest business by revenue as we exit 2022.

For the year, Payments grew 69.1% year-over-year to \$510.4 million, driven by the acquisition of First American and sales-driven growth for stand-alone Deluxe. Excluding First American, Payments revenue increased 5.4% year-over-year.

For the year, including First American, adjusted EBITDA increased 55.1% and adjusted EBITDA margin was 20.7%, down 190 basis points. Longer term, we expect the Payments segment to deliver a high single-digit revenue growth rate. And for 2022, we expect the adjusted EBITDA margins to be in the low 20% range.

Cloud Solutions had another solid quarter. Segment revenue increased 5.6% year-over-year to \$62.5 million in the quarter. As Barry mentioned earlier, if businesses exited during 2020 are excluded, Cloud grew 11% in the quarter. Cloud's growth continues to be driven

by our data-driven marketing solutions, which is seeing a solid rebound with the recovering economy and increased marketing spend. We continue to add new DDM clients, which will benefit us going forward.

As we've said in previous quarters, our strategy in our data business is to diversify beyond our core banking and mortgage verticals. We have mentioned pilot campaigns within these new markets, and these initial opportunities to have been successful. These pilots have outperformed our customers' existing campaigns, leading to new ongoing programs and use cases to approach other major players within these target markets. Our Q4 wins included new customers and programs in telco and notably within one of the country's largest e-commerce marketers.

In Q4, cloud adjusted EBITDA margin declined 300 basis points versus prior year to 24.2% due to product mix and investments to drive future growth in the business and the impact from business exits. For the year, Cloud segment revenue increased 3.8% year-over-year to \$262.3 million. Once again, if businesses exited during 2020 are excluded, Cloud grew 13% for the year.

For 2021, Cloud's adjusted EBITDA margin improved 240 basis points versus prior year to 26.8%. For 2022, we continue to expect to see mid-single-digit revenue growth on a reported basis. We also expect Cloud margins to remain healthy in the low to mid-20% range.

Promotional Solutions fourth quarter 2021 revenue was \$156.7 million, up 8.8% year-over-year. Adjusted EBITDA margin for the fourth quarter was 18.3%, up 430 basis points due to sales-driven operating leverage, merchandising optimization and seasonal factors. For the year, Promotional Solutions revenue was \$546.5 million, up 3.2% year-over-year. Adjusted EBITDA margin for the year was 15.6%, up 300 basis points.

We are anticipating 2022 top line growth in the low single-digit range and slightly improved adjusted EBITDA margins due to value realization initiatives and merchandising optimization.

Checks' fourth quarter revenue increased 6.2% from last year to \$184.1 million as new competitive wins, pricing actions and strength in our business checks outpaced the anticipated secular declines in the business. The significant Bradford win enabled by our investment in HP digital assets had a modest impact on the fourth quarter revenue but will partially offset expected secular declines in 2022. I should also note that while we are very pleased with these results, we do not expect to see this level of outperformance in 2022.

Fourth quarter adjusted EBITDA dollars remained flat year-over-year and adjusted EBITDA margin levels were 45.2%, down 290 basis points. This was largely driven by expenses related to the onboarding of new customers, inflation and planned investments, including our new print-on-demand technology from HP, which should help protect our margins moving forward.

Checks' full year 2021 revenue was \$703 million, flat with last year. And adjusted EBITDA margin levels were 46.1%, down 230 basis points. Based on high renewal rates, the new businesses won in 2020 and 2021, we anticipate Checks to decline in the low single digits for 2022, better than the anticipated industry secular declines.

Turning now to our balance sheet and cash flow. We ended the year with a net debt level of \$1.64 billion, up from \$716.9 million last year due to the First American transaction. Importantly, in the fourth quarter, we retired over \$94 million of debt and nearly \$153 million since the First American transaction, further demonstrating our financial discipline and commitment to delever.

Our net-debt-to-adjusted EBITDA ratio was 4.0x at the end of the year, down from 4.3x in the third quarter. Our longer-term strategic target remains approximately 3.0x.

Free cash flow, defined as cash provided by operating activities, less capital expenditures, was \$33.5 million in the fourth quarter, up \$2.7 million from the fourth quarter of 2020. We do expect overall free cash flow to increase in 2022 as the investments in our major tech platform modernization will decrease meaningfully starting in the second half of the year.

For the year, free cash flow was \$101.7 million, down from \$155 million in 2020 due to planned IT investments as well as transaction fees associated with the First American transaction.

Our Board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on March 7, 2022, to all shareholders of record on February 22, 2022. We did not repurchase common stock in the fourth quarter. As a reminder, our capital allocation priorities are to responsibly invest in growth, pay our dividend, reduce debt and return value to our shareholders. We will evaluate future repurchases on an opportunistic basis, subject to the attainment of our deleveraging goals.

Turning now to guidance. Today, we are providing our expectations for 2022. As a reminder, the guidance includes the partial prior year of First American, assumes a continued economic recovery that is subject to, among other things, the macroeconomic unknowns associated with the COVID-19 pandemic, including the Omicron variant as well as the anticipated continued supply chain constraints, labor supply issues and inflation.

We've added several more components to our guidance, which should help you with the modeling. For full year 2022, we are expecting the following, keeping in mind that all figures are approximate. Revenue growth of 8% to 10%, including a full year of First American. As a reminder, the transaction closed on June 1, 2021.

Adjusted EBITDA margin of approximately 20% for the full year. We expect 2022 to return to pre-COVID seasonal patterns. The Q1 margin rate will be the lowest of the year with margins improving as the year progresses. Interest expense of \$85 million. An adjusted tax rate of 26%. Depreciation and amortization of \$180 million, approximately half of which is acquisition amortization. Average outstanding share count of 43.5 million shares and capital expenditures of \$105 million.

To summarize, I'm very pleased with the fourth quarter and full year 2021 results. We are executing on our One Deluxe strategy, and believe the company is experiencing solid momentum that we expect to continue into 2022.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Lance Vitanza with Cowen.

Lance William Vitanza Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst

Congratulations on a important year, a great quarter. And if I can, I'd like to start maybe with just one big picture question. Barry, you've done a lot to really transform this business over the past couple of years. My question is, where do you see the business going from here? Do you have Deluxe where you want it to be? Or will there be more improvements? I guess what I'm wondering is will -- are you now moving into a reap-what-you-sow type of dynamic? Or do you have a lot more -- are there more transformational -- is there more transformational work that needs to be done in your opinion?

Barry C. McCarthy Deluxe Corporation - President, CEO & Director

Well, first of all, Lance, great to talk to you again. We're very proud of how the business performed through 2021. And I fundamentally agree with you that it was a very, very important year in our transformation.

You'll recall that we have invested over the last couple of years to improve our core operating systems, our infrastructure and more. And we will be completing all of that work in the first half of this year, so that is already largely behind us, but it will be really behind us at the middle of the year passes.

We very much like the position the company is in today, which is we have a Payments business that at year-end will be the largest business in the company's portfolio. And that puts us in a strong position for secular growth going forward. The Payments business, we have long held the belief that it will continue to grow and deliver high single-digit growth for the long term with healthy margins. We

really like that profile substantially. We've made investments to ensure the success of our Check business cash flow for the long term, which you saw us make announcements in the very recent past, and we really like where we're positioned today. And we think we're in a great spot to grow the company from here.

Operator

Our next question is from Charles Strauzer with CJS Securities.

Charles S. Strauzer CJS Securities, Inc. - Senior MD

Can you talk a little bit more about your assumptions behind the organic growth for 2022 for both the core and SaaS business? And maybe a little bit more granularity on the segments. I know you gave some good detail there, but maybe some more about the assumptions behind those numbers.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Sure, Charlie. So this is Scott. So the revenue of 8% to 10%. Obviously, that includes a partial year for First American to be including in the base for the first time. To break that apart, we would say on the legacy business, that would be 0% to 2% growth, similar to what we had communicated for this year. As you move into the back half of the year and as First American just becomes part of who Deluxe is, we'll begin to think about that as a portfolio, and we'll not need to segregate that independently.

Within the segments, we've talked about each individual segment and what our long-term expectations are for the overall payments business. We're thinking 2022 and beyond as being a long-term, high single-digit grower with the inclusion of First American. Cloud in the mid-single digits, Promo in the low single digits. Then Check, we talk about the secular declines in that industry as we continue to resume in 2022, had an incredible Q4 in the Check business where we actually grew revenue period-over-period.

We don't -- while we're thrilled with our performance. We don't expect that to continue next year, and we're going to look at 2022 to deliver a low single-digit decline in Checks.

Charles S. Strauzer CJS Securities, Inc. - Senior MD

Great. And then looking at a little bit of growth, obviously, on the top line, but EBITDA margins are relatively flat with '21. Can you talk more about kind of the factors impacting the margins and some of the things you need to offset those?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Sure. So 20% EBITDA margin for 2022, consistent with what we would say is this year. And certainly, there are some areas of pressure with inflation and supply chain dynamics that we're still working our way through. But we do feel like we've got a good solid plan on how to deflect those pressures in the business and deliver EBITDA rate performance in line with what we saw this year.

The one nuance is that we are expecting Q1 to be the lowest quarter of the year, there's some seasonal patterns that have historically existed in the business that we expect to resume. You didn't see those in 2021, these are sort of one-timers associated with COVID. But we do expect Q1 to be the lowest performer of the year, increasingly steadily throughout the year and deliver 20% overall across the cases there.

Charles S. Strauzer CJS Securities, Inc. - Senior MD

Great. And then lastly, if you can expand a little further on your thoughts for free cash flow. I know you said you're expecting it to grow in 2022, but maybe a little bit more granularity there.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Certainly. So Barry talked a lot about the transformation that was initiated several years ago regarding the internal infrastructure of the organization. Internally, we call these initiatives 6 Flags. There were 6 specific infrastructure components that were replaced completely. 5 of those projects are now complete. The final which -- the final of those, which is also the biggest and most impactful, is the

replacement of the ERP system to integrate all these previously unintegrated businesses that will conclude in the first half of 2022. And that has been a significant consumer of cash in the organization. And so with the completion of that activity, there is a meaningful amount of incremental free cash flow as compared to 2021 that we'll expect to see next year.

Operator

Our next question is from Lance Vitanza with Cowen.

Lance William Vitanza Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst

I wanted to start on First American and the Payments business actually. It sounds like it was a -- if I heard you right, it was accretive to EBITDA margin, slightly accretive to EBITDA margin in the quarter, good yes, the guidance, I think you said for 2022 is going to be for another year of low 20% EBITDA margin. And so it just -- it seems like you're not really -- if I heard you right, it sounds like you're not really expecting to capture any operating leverage there. And I'm just wondering if that's a temporary phenomenon. I know, obviously, we've got a lot of things going on in the world right now. Or should we be thinking that that's just the nature of the business and that sort of -- that margin profile should continue out for the next several years?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

So we -- you're correct in that we have not modeled a significant amount of operating leverage in First American for 2022. There are a number of investments that need to be made in the business, and we're excited about continuing to grow that and thrilled with the performance that that team has delivered over the course of 2021.

We do, however, expect that in the long term, even in the intermediate term, there should be operating leverage as we've talked a lot about the strategy of that acquisition. First American has -- is a scale business with a solid platform upon which additional volume should come through in higher flow-through rates. So we do expect operating leverage in the future, but we need to make some investments to continue to grow the baseline business as we further integrate that end with the balance of Deluxe.

Lance William Vitanza Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst

So not to equip with the semantics, but it sounds like the flat margin in '22 is really somewhat misleading because there's things going on, puts and takes beneath the surface. There is some higher flow-through, but it's being offset by some temporary investments that you feel like you need to make. Is that a fair way to characterize it?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Yes. I think that's fair.

Lance William Vitanza Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst

Okay. Cloud, it looks like the year-on-year growth, it looks like it decelerated. And I'm wondering if there was anything in particular happening there, and it still is quite nice. But I also noticed that it was down quarter-on-quarter. So I was hoping you could talk a little bit about the seasonality that you would typically expect to see in the business.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

There is seasonality in the business, but I think primarily the decelerating growth is a function of the comp year and the recovery from COVID that we saw in the early part of the year, and now we're starting to trend up against stronger comp quarters in the business. And as we've continued to articulate, we view this as a mid-single-digit grower going forward as we converted to that level in Q4. But this business is performing in line with our expectations. We're really happy with the traction we've made with new customers and the prospective opportunities to enter into new industry verticals. So we're very happy with the performance we've seen there.

I think it is important to note that the growth rate that you're seeing there, the mid-single-digit growth rate is also impacted by the exit. So if you exclude the exits, it would have been 11% growth in the quarter.

Lance William Vitanza Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst

Right. Okay. Great. And so on the Promo side, you did quite nicely, much better than we were expecting. And I'm wondering, actually, if maybe the reverse was happening there. Was there some reason that, that was maybe an easier comp, maybe anything that got pushed

out of 4Q '20? Or was there anything pulled forward into 4Q '21? Clearly, I'm guessing we shouldn't be expecting 9% year-on-year growth going forward.

Scott C. Bomar *Deluxe Corporation - Senior VP & CFO*

So we saw some strong growth in that business. Certainly, we do not expect that to continue at those levels going forward. We did see some improved performance in some subsections within Promo, specifically, promo and apparel, which is a business that was hit hard by COVID. But we saw some nice strength in that piece of the business in Q4. Also, part of that business is there's sort of a forms business that often tracks with Checks, and we see some -- saw some strong performance there as well.

So we still think the business is healthy, going to perform well in 2020 to '22, but we're modeling that out as more of a low single-digit grower next year.

Lance William Vitanza *Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst*

Okay. And my last question, if I could squeeze one more in, is really on the balance sheet. And you did a nice job there, leverage, net debt, both a little bit lower than we had modeled. I'm a little frustrated that now apparently, you don't feel is the time to be repurchasing the stock. I mean, the stock is clearly not reflecting the value proposition here.

And it sounds like you've pretty much made up your minds that until you get that leverage down to your target, share repurchases are all but off the table. Maybe I'm making that too -- maybe stronger than you guys are making it. But could you comment on that a little bit? And is there any chance that maybe the company does move in first half of this year and take advantage of the prices that we're seeing?

Scott C. Bomar *Deluxe Corporation - Senior VP & CFO*

This is something that we review with our Board every single quarter. We're always evaluating our capital allocation priorities, and I would never say never. But at the moment, we are steadfast in our commitment to delever according to the commitments we've made at the time of the First American acquisition. But we revisit that on a constant basis. We're evaluating our capital plans. We're evaluating our debt deleveraging plans as well as our share buyer plans constantly. So never say never, but for the moment, we're focused on reducing our leverage.

Operator

Our next question is from Chris McGinnis with Sidoti & Co.

Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*

Nice quarter. I guess if we could start just on -- with First American, can you just talk about the growth rate that you're seeing there. And then how long you can keep that growth rate going now that it's under your command?

Barry C. McCarthy *Deluxe Corporation - President, CEO & Director*

Chris, good to hear you. We're obviously very proud and pleased with First American performance. And like we said earlier, we think it's just really clear evidence that our One Deluxe sales model works and the Deluxe halo is real.

We think that that's going to be a great business over the long term. We don't know that it's going to stay at this elevated rate of growth indefinitely. We -- I tell you we feel very good now about what we said when we acquired the asset that we believe we could have it as a solid, middle digit grower and perhaps more. And we're seeing perhaps more right now in what we saw in the full year and fourth quarter results. And what I would just tell you we feel very confident, very confident that our original business case and plan is solid and is going to deliver.

Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*

Great. And then I guess just the second part of that around FAS. I know you mentioned this last quarter, Barry, is that you're getting inbound calls. Is that customer outreach still continuing to happen coming to you now that you have that asset in place?

Barry C. McCarthy *Deluxe Corporation - President, CEO & Director*

Well, absolutely, I think, Chris, maybe the best way to think about sort of this notion of the Deluxe halo and the strength of our relationship and the strength of the brand we have in the marketplace, particularly with financial institutions is that we closed 3x, 3x the number of financial institutions in the back half that then would be a normal close rate for First American. It is -- like, the best way I can explain to you that it's real and that the fact that the relationships we have to leverage for growth is just it's clear. It's black and white. 3x the number of financial institutions signed with First American in the back half than they would in a typical back half. I just -- I don't have a better way to dimensionalize except to tell you that that's -- I think it's really powerful and really clear.

Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*

And I guess just thinking about that with the Bradford Exchange announcement earlier this week. Can you just talk about, I guess, one, the opportunity there just on the Check side. And then also, is there room for that One Deluxe strategy to play out to include more products that Deluxe offers?

Barry C. McCarthy *Deluxe Corporation - President, CEO & Director*

We continue -- and so there's a bunch of questions there. So let me take it one at a time. Let me talk about the Bradford, HP and what we're doing in our Checks business. We have long said that we were going to focus on maintaining that profitability for the far and foreseeable future. And by making investments in the digital technology like you saw us announce with HP helps us do that. It greatly simplifies the production process, unlimited inventory in our warehouses and gives us many more products to sell.

Part of having more products to sell, mean there are other customers that we can go sell to. A Bradford Exchange is a great example. Bradford Exchange, their core business is that they put artwork on a variety of different products to create a custom product for a consumer. And they have a significant check business today that was being managed and delivered by our competitor, and we won that away on a variety of points, especially the fact that we now have this capability and technology that allows us to have nearly infinite variety of designs.

And that's important not only to Bradford Exchange because that's a key differentiator for them in the market. But it's already allowed us to add additional check designs to our mix, which allows us to have new revenue sources. And it does position us really well to go after a different segment of the market that we haven't been able to go after in the past. So we think there's opportunity for us to win additional business there and continue the ability for us to grow share of the market in Checks.

So the second question really was around One Deluxe and the ability to cross-sell beyond just the success we highlighted on First American. But throughout this quarter and throughout the year, we continue to improve our cross-sell rates in our telesales centers, as an example. Our pipeline of products that we have in queue to be sold to our existing customers has continued to expand. And I think it was a third -- a record -- consecutive year of record cross-sell performance. So we don't see any reason that that's going to slow down. The One Deluxe model that we started building clearly works. And if -- it's a machine that is working really well for us.

Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*

Great. I appreciate that color, Barry. Just to move on to Checks and the growth in the quarter, and I understand the outlook for '22. But can you just dive a little bit more into the growth in the quarter itself? Maybe how much is from existing and then from new client wins?

Scott C. Bomar *Deluxe Corporation - Senior VP & CFO*

Yes. So look, we still think about the industry and the base business as being in that mid-single-digit secular decline. So you get a sense for how much of the volume that we delivered was based on new wins. And so the team has just done a terrific job in winning a high -- very, very high percentage of renewals of our existing customers and then faring quite well when new business is up for grabs. So team just continues to do a terrific job there.

And so we don't have as many renewals coming up in the near term. So we think we've got a pretty solid baseline of revenue trending into 2022. But again, the team continues to take share and then do a good job with that business.

Christopher Paul McGinnis Sidoti & Company, LLC - Special Situations Equity Analyst

Excellent. Also on MPX, it sounds like it's starting to really gain some traction. Can you just talk about the opportunity that you see and maybe the revenue growth rate? I know it's still small, but it sounds like it's moving in a pretty positive direction.

Barry C. McCarthy Deluxe Corporation - President, CEO & Director

So we're really proud of what's happening with MPX and DPX. And year-on-year, it's growing in the 50-plus percent range. So very material revenue growth rate. And we think there's a ton of upside potential. If you just look at it and you say that if you convert to just a small percentage of B2B checks, it's not -- it's incredibly -- it's right in front of us to go make that \$100 million a year business, not tomorrow morning, but over a couple of year horizon. And at that growth rate, we believe we can get there in a few years.

And so it's a real business. It's a real market opportunity. And as we noted, we signed the fourth major payer in Q4, which is a big deal because it hasn't gone live yet, but because they're signed, there will be revenue and profit that come to us beginning in '22 and then accelerating as we go forward.

Operator

And it appears that we have no further questions at this time. I'll turn the call back to Mr. Morabito for any closing remarks.

Thomas C. Morabito Deluxe Corporation - VP of IR

Thanks, Chris. Before we conclude, I'd like to mention that management will be participating in the Sidoti Spring Small Cap Conference on March 23. Thank you again for joining us today. Please stay healthy and safe, and we look forward to speaking with you in May as we share our first quarter 2022 results.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.

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