Q3 2020 Earnings Call

November 5, 2020

Jane Elliott

CHIEF COMMUNICATIONS AND HR OFFICER

dlx Todays Presenters

Barry McCarthy

President and
Chief Executive Officer

Keith Bush

Chief Financial Officer and
Senior Vice President

Jane Elliott

Chief Communications and
Human Resources Officer

Heather Davis

Head of Investor Relations

dlx Cautionary Statement

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 risks related to potential continuing negative impacts from pandemic health issues, such as the coronavirus / COVID-19, along with the impact of government stay-at-home orders or other similar directives on our future financial results of operations, our future financial condition, and our ability to continue business activities in affected regions, which could cause our actual results to differ materially from our projections. Additional information about factors that might cause our actual results to differ from projections is contained in the press release issued today, in the company's Form 10-K for the year ended December 31st, 2019, the Form 10-Q which will be released in conjunction with our third quarter 2020 earnings as well as other SEC filings.

Portions of the financial and statistical information that will be discussed during this call are addressed in more detail in today's press release which is posted on our investor relations website at deluxe.com. This information was also furnished to the SEC on the Form 8-K filed by the Company this afternoon. Any references to non-GAAP financial measures are reconciled to the comparable GAAP financial measures in the press release and as part of this presentation or as part of our presentation during this call.

Barry McCarthy

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Stronger Than Expected Q3 Results

- **Delivering sales-driven growth** for the third consecutive quarter, excluding COVID impact
- Sequentially improved **adjusted EBITDA margin to 23.3%**
- Built cash reserves and reduced **net debt to lowest level in more than 2 years**
- **Paid down $140 million on our revolver** in October (Q4 2020)
- Continued to improve infrastructure to **drive sustainable growth**
- **Remain confident in financial strength**

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Accelerating Sales Momentum

Q3 2020 Key Wins

REMAX

M&T Bank

Innovative sales team executing with speed and agility

Closed >1,000 multi-year deals ahead of full year sales goals

Closed **6** out of the top **25** targets year to date

Achieved record average order value in tele-sales

Cross-selling added **$11M** in TCV

dlx Q3 Segments

Payments

- Positive outsourcing trends in payments accounts receivables contributed to **15.6% revenue growth in Payments**
- **Revenue of $74.7M**

Cloud Solutions

- **Renewed demand in data driven marketing business** from existing and new financial institutions customers
- Cloud Solutions added **new partners for incorporation and webhosting**
- **Revenue of $63.8M**

dlx Q3 Segments

Promotional Solutions

» **Sequential growth in Promotional Solutions** in business essentials

» **Revenue of $124.9M**

Checks

» **Competitively winning new check customers** and accelerated self-service and digital order volume

» Strategic asset to **fund growth**

» **Revenue of $176.1M**

Keith Bush

CHIEF FINANCIAL OFFICER AND SENIOR VICE PRESIDENT

dlx Q3 Quarter Revenue and Expense

» Sales-driven growth drove **sequential revenue improvement of 600 basis points** from Q2 decline rate, offset by impact related to the pandemic

» Took cost action to address the loss of revenue and change in mix, driving **improved adjusted EBITDA margins by 290 basis points sequentially to 23.3%**

» **Gross profit margin improved** with the loss of lower margin Promotional and Cloud revenue

» SG&A expense declined over last year, while increasing 210 basis points as a percentage of revenue for the quarter due to **renewed investments in our technology and transformation**

dlx Q3 Segments

Payments

- **Revenue grew 15.6%** driven by Treasury Management
- Adjusted EBITDA margin of **22.4%** down from last year's quarter due to increased costs associated with new business
- Anticipate sequential revenue growth in Q4 with single-digit YOY growth
- Payment adjusted EBITDA margin pressure expected to continue in Q4

Cloud Solutions

- Revenue declined 20.3% driven by COVID-19 related impacts across all areas
- Increased demand in data driven marketing in Q3 from Q2
- Adjusted EBITDA margins of **25.7%** improved as a result of mix shift change in revenue
- Q4 revenue impacted from product exits
- Anticipate Cloud Solutions margins in low-to-mid 20% range

dlx Q3 Segments

Promotional Solutions

» Revenue declined 20.3% in the quarter as a result of pandemic impacts

» Adjusted EBITDA margins **increased 260 basis points** in the quarter as we continue to focus on overall cost structure

» Expect business to improve but not expecting a rapid recovery until pandemic abates

Checks

» Revenue declined 8.4% from continued secular decline and business disruption as a result of the pandemic

» Adjusted EBITDA decreased to **48.2%** due to higher commissions from large client renewals and technology investments

dlx Cash Flow

Free Cash Flow

(Cash provided by operating activities, less capital expenditures)

$ in millions	For the Nine Months Ending		
	09/30/20	09/30/19	Variance
Cash Provided by Operating Activities	$ 166.8	$ 208.0	$ (41.2)
Less Capital Expenditures	$ 42.7	$ 49.7	$ (7.0)
Free Cash Flow	$ 124.1	$ 158.3	$ (34.2)

See appendix for GAAP to Non-GAAP Reconciliations

Cash from Operations

» Decrease driven by:
  » COVID-19 related revenue decline
  » Cloud Solutions business exits described last year
  » Expected secular check declines

» Partially offset by:
  » Lower taxes
  » Delayed integration and technology costs
  » Legal settlements

Cash from Investing

» Did not repurchase any stock during quarter

dlx Strong Balance Sheet in Q3

- Expanding cash balances at $310M
- Outstanding credit facility remained at $1.04B
- Revolver matures in 2023 and has total size of $1.15B
- Paid down $140M in October, repaying 100% of COVID-related draw made in March, not reflected in Q3 outstanding credit facility balance

Net debt is lowest level since Q2 2018

$ in millions

9/30/20	6/30/20	3/31/20	12/31/19	9/30/18	Improvement 9/30/20 vs 12/31/19
$730.0	$ 768.0	$ 829.9	$ 809.9	$ 832.2	$ 79.9

See appendix for GAAP to Non-GAAP Reconciliations

Positioned For Sustainable Growth

» Declared regular quarterly dividend of $0.30 per share

» Accelerating transformation to deliver long-term shareholder returns

» Well positioned with financial strength and flexibility

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Barry McCarthy

PRESIDENT AND CHIEF EXECUTIVE OFFICER

dlx One Deluxe Strategy is Working

- Increased adjusted EBITDA margin **sequentially by nearly 300 basis points**
- **Reduced net debt to lowest level in more than 2 years**
- Declared regular quarterly dividend
- Payments revenue **grew 16%**
- Delivering sales-driven revenue growth (excluding COVID-19 impacts)

Question & Answers

Heather Davis

HEAD OF INVESTOR RELATIONS

dlx Future Management Presentations

DATE	EVENT
Mid January 2021	Needham's 23rd Annual Virtual Growth Conference

deluxe®

trusted business technology

Appendix

Segment Detail

Reconciliation of GAAP to Non-GAAP Measures

dlx Q3 Segment Detail

	Quarter Ended September 30, 2020	Quarter Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Revenue:				
Payments	$74.7	$64.6	$223.9	$193.9
Cloud Solutions	63.8	80.0	193.6	237.2
Promotional Solutions	124.9	156.8	385.7	468.2
Checks	176.1	192.2	533.1	587.3
Total	$439.5	$493.6	$1,336.3	$1,486.6
Adjusted EBITDA:				
Payments	$16.7	$17.2	$50.4	$52.0
Cloud Solutions	16.4	20.2	45.5	56.4
Promotional Solutions	21.5	22.9	46.5	68.8
Checks	85.0	98.8	258.4	300.9
Corporate	(37.1)	(39.8)	(131.1)	(127.6)
Total	$102.5	$119.3	$269.7	$350.5
Adjusted EBITDA Margin:				
Payments	22.4 %	26.6 %	22.5 %	26.8 %
Cloud Solutions	25.7 %	25.3 %	23.5 %	23.8 %
Promotional Solutions	17.2 %	14.6 %	12.1 %	14.7 %
Checks	48.2 %	51.4 %	48.5 %	51.2 %
Total	23.3 %	24.2 %	20.2 %	23.6 %

dlx Reconciliation of GAAP to Non-GAAP Measures

EBITDA AND ADJUSTED EBITDA

Management discloses EBITDA and Adjusted EBITDA because it believes they are useful in evaluating the Company's operating performance, as the calculations eliminate the effect of interest expense, income taxes, the accounting effects of capital investments (i.e., depreciation and amortization) and in the case of Adjusted EBITDA, certain items, as presented below, that may vary for reasons unrelated to overall operating performance. In addition, management utilizes Adjusted EBITDA to assess the operating results and performance of the business, to perform analytical comparisons and to identify strategies to improve performance. Management also believes that an increasing EBITDA and Adjusted EBITDA depict an increase in the value of the company. Management does not consider EBITDA and Adjusted EBITDA to be measures of cash flow, as they do not consider certain cash requirements such as interest, income taxes, debt service payments or capital investments. Management does not consider EBITDA or Adjusted EBITDA to be substitutes for operating income or net income. Instead, management believes that EBITDA and Adjusted EBITDA are useful performance measures that should be considered in addition to GAAP performance measures.

(in millions) (Unaudited)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$29.4	($318.5)	($15.8)	($244.7)
Non-controlling interest	—	—	(0.1)	—
Interest expense	5.1	8.7	18.3	27.2
Income tax provision (benefit)	12.1	(28.7)	13.9	(1.5)
Depreciation and amortization expense	28.0	30.5	83.1	95.4
EBITDA	74.6	(308.0)	99.4	(123.6)
Asset impairment charges	2.8	391.0	98.0	391.0
Restructuring, integration and other costs	18.9	29.7	59.1	53.7
CEO transition costs	—	1.1	—	8.6
Share-based compensation expense	6.2	5.4	15.4	14.0
Acquisition transaction costs	—	—	—	0.2
Certain legal-related expense	—	—	(2.2)	6.4
Loss on sales of customer lists	—	0.1	—	0.2
Adjusted EBITDA	$102.5	$119.3	$269.7	$350.5

dlx Reconciliation of GAAP to Non-GAAP Measures

ADJUSTED DILUTED EPS

By excluding the impact of non-cash items or items that may not be indicative of ongoing operations, management believes that Adjusted Diluted EPS provides useful comparable information to assist in analyzing the Company's current and future operating performance. As such, Adjusted Diluted EPS is one of the key financial performance metrics used to assess the operating results and performance of the business and to identify strategies to improve performance. It is reasonable to expect that one or more of the excluded items will occur in future periods, but the amounts recognized may vary significantly. Management does not consider Adjusted Diluted EPS to be a substitute for GAAP performance measures, but believes that it is a useful performance measure that should be considered in addition to GAAP performance measures.

(in millions) (Unaudited)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$29.4	($318.5)	($15.8)	($244.7)
Non-controlling interest	—	—	(0.1)	—
Net income (loss) attributable to Deluxe	29.4	(318.5)	(15.9)	(244.7)
Asset impairment charges	2.8	391.0	98.0	391.0
Acquisition amortization	13.7	16.4	42.0	54.2
Restructuring, integration and other costs	18.9	29.7	59.1	53.7
CEO transition costs	—	1.1	—	8.6
Share-based compensation expense	6.2	5.4	15.4	14.0
Acquisition transaction costs	—	—	—	0.2
Certain legal-related expense	—	—	(2.2)	6.4
Loss on sales of customer lists	—	0.1	—	0.2
Adjustments, pre-tax	41.6	443.7	212.3	528.3
Income tax provision impact of pre-tax adjustments[1]	(9.4)	(52.4)	(39.7)	(71.3)
Adjustments, net of tax	32.2	391.3	172.6	457.0
Adjusted net income	61.6	72.8	156.7	212.3
Income allocated to participating securities	—	(0.1)	(0.1)	(0.3)
Re-measurement of share-based awards classified as liabilities	—	0.1	(0.8)	0.1
Adjusted income attributable to Deluxe available to common shareholders	$61.6	$72.8	$155.8	$212.1
Weighted-average dilutive shares	42.0	42.5	42.0	43.3
Adjustment[2]	—	0.2	0.1	0.1
Adjusted weighted-average dilutive shares	42.0	42.7	42.1	43.4
GAAP Diluted EPS	$0.70	$(7.49)	$(0.40)	$(5.65)
Adjustments, net of tax	0.77	9.20	4.10	10.53
Adjusted Diluted EPS	$1.47	$1.71	$3.70	$4.88

(1) The tax effect of the pretax adjustments considers the tax treatment and related tax rate(s) that apply to each adjustment in the applicable tax jurisdiction(s). Generally, this results in a tax impact that approximates the U.S. effective tax rate for each adjustment. However, the tax impact of certain adjustments, such as asset impairment charges, share-based compensation expense and CEO transition costs, depends on whether the amounts are deductible in the respective tax jurisdictions and the applicable effective tax rate(s) in those jurisdictions.

(2) The adjustment to total weighted-average dilutive shares is due to the net loss reported in certain of the periods presented. During these periods, the GAAP EPS calculations excluded a higher number of share-based compensation awards because their effect was antidilutive.

dlx Reconciliation of GAAP to Non-GAAP Measures

NET DEBT

Net debt is not a GAAP financial measure. Nevertheless, management believes that net debt is an important measure to monitor leverage and evaluate the balance sheet. In calculating net debt, cash and cash equivalents are subtracted from total debt because they could be used to reduce the Company's debt obligations. A limitation associated with using net debt is that it subtracts cash and cash equivalents, and therefore, may imply that management intends to use cash and cash equivalents to reduce outstanding debt and that there is less Company debt than the most comparable GAAP measure indicates.

(in millions) (Unaudited)	September 30, 2020	December 31, 2019	September 30, 2019
Total debt	$1,040.0	$883.5	$924.0
Cash and cash equivalents	(310.4)	(73.6)	(73.5)
Net debt	$729.6	$809.9	$850.5

FREE CASH FLOW

Management believes that free cash flow is an important indicator of cash available for debt service and for shareholders, after making capital investments to maintain or expand the Company's asset base. Free cash flow is limited and not all of the Company's free cash flow is available for discretionary spending, as the Company may have mandatory debt payments and other cash requirements that must be deducted from its cash available for future use. Free cash flow is not a substitute for GAAP liquidity measures. Instead, management believes that this measurement provides an additional metric to compare cash generated by operations on a consistent basis and to provide insight into the cash flow available to fund items such as share repurchases, dividends, mandatory and discretionary debt reduction and acquisitions or other strategic investments.

(in millions) (Unaudited)	Nine Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	$166.8	$208.0
Purchases of capital assets	(42.7)	(49.7)
Free cash flow	$124.1	$158.3