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Q3 2021 Deluxe Corp Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe Third Quarter 2021 Earnings Conference Call.

(Operator Instructions) Today's call is being recorded. (Operator Instructions)

At this time, I would 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 Third Quarter 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, 2020, 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.

We're pleased with our ongoing transformation into a trusted payments and business technology company. In fact, our Payments business, inclusive of our First American acquisition, now rivals our legacy check business in revenue scale. Make no mistake: Deluxe is a payments company.

The major story this quarter is the continued success of First American, our recent acquisition, which delivered 12% year-over-year revenue growth exceeding our expectations. Our deep, trusted customer relationships, which we call the Deluxe halo, is indeed real and has resulted in First American growing faster than its historical pace. First American is leveraging the Deluxe relationships and the powerful sales machine we've built. Also a major story this quarter is the ongoing success of our sales machine and One Deluxe model,

which continued to deliver strong performance overall. Consistent with the success of previous quarters, we won many new deals in the quarter, further highlighting our ability to cross-sell more products and services to our existing customers. We will provide specifics by business in a moment. The key takeaway here: Our sales machine has enabled us to outpace secular declines without the benefit of acquisitions for 2 consecutive quarters, something that has not happened for many years. We see this as a critical milestone in our transformation.

For the business overall, we delivered sales-driven revenue growth of just over 2% for legacy Deluxe and 21% growth including First American. Payments, cloud and Promotional Solutions all experienced solid revenue increases. Check declined slightly more than 2%, better than our longer-term expectations, thanks to ongoing market wins. Payments performance was driven by the acquisition of First American. We also saw nice growth in our HR, payroll and digital payments businesses. Cloud growth was driven by our data-driven marketing business. Promotional Solutions benefited from the implementation of key wins from earlier in the year. And Checks performance was driven primarily by business checks and new competitive wins. The third quarter results are further evidence that our One Deluxe strategy is working, and we're looking forward to continuing this momentum into the fourth quarter and into 2022.

Before I go into the highlights for the quarter, I want to first thank my fellow Deluxers for their continued hard work and commitment to our customers. Our transformation into a leading payments and business technology company is progressing very well. And the positive results we're reporting today would not have been possible without their deep loyalty and continued dedication to our company and our customers' success.

Now to the consolidated highlights from the quarter. Revenue was \$532 million, up 21.1% year-over-year. Not including the impact of First American, revenue was up 2.3%. Adjusted EBITDA margin was 19.3%; and was impacted by product mix, IT investment, inflation, lingering COVID impacts and other items during the quarter just as we expected. Adjusted EPS was \$1.10 per share, which Scott will provide more details on in a moment.

During the third quarter, we also paid down \$58 million of debt, which is evidence of our continued financial discipline and commitment to maintaining a healthy balance sheet despite COVID and other macroeconomic factors currently at play.

Moving on to some segment highlights. Our Payments segment grew 115% year-over-year, driven by the performance of First American. Excluding First American, revenue increased 4% with growth in our other major businesses, particularly payroll and HR. Our payables as a service offering, which includes our Deluxe Payment Exchange and Medical Payment Exchange, are seeing strong growth, although ramping a bit slower than expected but still nearly doubling year-over-year. We continue to be excited about their prospects.

Let me go further on First American. The First American FI sales pipeline has more than doubled since we closed this acquisition on June 1. Similarly, our Deluxe pipeline has grown to reflect the cross-sell opportunities that we knew we would generate by selling products such as HR, payroll, payables and receivables to the First American base. Within Payments, the power of One Deluxe was evident in our recent deal with Zions Bancorporation, a long-standing Deluxe client. With more than \$85 billion in assets and operations in 11 western states, Zions expanded its relationship with us to include our digital disbursements product, the Deluxe Payment Exchange. We greatly expanded our DPX platform capacity from about 50,000 transactions per day to 1 million per day. This capacity expansion enabled us to sign and deliver our first client in the class action litigation settlements industry. The client used DPX instead of paper checks to distribute settlement funds to approximately 2.5 million payees over just a few days. DPX saved the client about 75% versus mailing a paper check. The customer value proposition is compelling and why we had a number of major signed new clients in the implementation queue, positively impacting future periods. Payments also recently added the Better Business Bureau of Minnesota and North Dakota to our payroll and HR solutions platform, where Deluxe will market these services to the Better Business Bureau's 7,000 members.

Next, Cloud Solutions. Cloud Solutions had a strong quarter, improving 9% year-over-year. Importantly, excluding business exits from 2020, cloud's growth would have been roughly 18%. Cloud performance benefited from positive impacts of a recovering economy and our data-driven marketing business or DDM. That momentum continued from the second quarter. Further, low interest rates drove increased demand among several of our large financial partners.

Another key win with Zions was in our cloud business. Our Cloud and Promotional Solutions teams worked together to develop a

customized demand generation platform Zions now resells directly to its clients. By listening to Zions' needs, we harnessed the power of One Deluxe to develop a complete solution to drive their success. As we've said in previous quarters, our strategy in our data business is to diversify beyond our core banking and mortgage verticals. We also announced our successful entry into the regulated utilities market in the second quarter and expanded further in the third quarter with our first retail and telco clients. We also launched a pilot with a top 5 life insurance carrier.

Now on to our Promotional Solutions segment. Promotional Solutions improved over 4% year-over-year, positively impacted by the PNC deal we announced earlier in the year. Expanding our relationship with the eighth largest commercial bank in the U.S., Deluxe is providing multiple products to PNC, which has been ramping up over the last 2 quarters. Relationships such as these are key components of our cross-sell story and is a great example of key wins quickly converting to revenue. This quarter, Deluxe also added one of the largest health care systems in the U.S. to our Deluxe Brand Center platform. We previously mentioned the Deluxe Brand Center success managing branded merchandise consumed in normal business operations for financial institutions and real estate companies. In this case, we're pleased to add an entity with more than 35 hospitals and 700-plus medical offices across the country that will be using our technology to manage branded merchandise consumed in hospital operations. The Deluxe Brand Center strategically shifts our business from a onetime sale to a reoccurring revenue model.

Finally, our highly profitable cash-generating Checks business declined just over 2% year-over-year, which is better than long-term industry trends. The performance was largely driven by solid growth from business checks. And while the sector is in secular decline, we continue to secure competitive wins helping to mitigate those impacts. In fact, year-to-date, when in competitive situations, we win the business 3 out of 4 times; and we expect this success to continue. Onboarding wins in Checks positively impacted the third quarter, including 2 of the nation's top 25 FIs, accompanied by continued success in retaining our top-tier FI clients during the quarter. Our product superiority and the strength of our balance sheet enable us to expand market share and protect our outstanding cash flow. As a reminder: Checks play a very strategic role for Deluxe, delivering meaningful low-cost leads, driving our cross-selling engine, now including First American.

In summary, we're pleased about our transformation progress into a payments company. First American is winning, and the Deluxe halo is real. The company overall and all 4 segments are performing well and consistent with our guidance. We're optimistic about our fourth quarter and 2022 prospects. Our cross-selling and sales momentum is leading to a strong year for sales. And our third quarter results demonstrate the durability and strength of our company despite lingering effects of COVID and inflationary pressures.

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 enterprise highlights for the quarter before moving on to the segments.

We posted total revenue of \$532.1 million, up 21.1% year-over-year. Not including First American, revenue came in at \$449.6 million, up 2.3% year-over-year. We reported GAAP net income of \$12.5 million or \$0.28 per share in the quarter. GAAP net income was impacted by \$11.9 million in acquisition amortization related to the First American acquisition compared to the prior year quarter. Adjusted EBITDA came in at \$102.7 million, while adjusted EBITDA margin was 19.3%.

As a reminder, Q3 2020 benefited from the temporary implementation of several COVID-related cost savings initiatives and other onetime items. In addition, earnings were impacted by planned technology investments, inflationary pressures, product mix and onetime items as well as additional interest expense resulting from the First American acquisition. We do anticipate that these inflationary pressures will be partially offset by pricing increases going forward. I should also note that income from First American positively contributed to the quarter.

Adjusted EPS came in at \$1.10, down from \$1.47 in last year's third quarter.

Now turning to our segment details.

Payments grew third quarter revenue 114.6% year-over-year to \$160.3 million, largely impacted by the acquisition of First American and sales-driven growth for stand-alone Deluxe. Excluding First American, Payments revenue increased 4.2% 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 89.2% in the quarter. And adjusted EBITDA margin was 19.7%, down 270 basis points due to increased investments in IT, sales and marketing; as well as inflationary labor costs in our lockbox business. We anticipate that price increases will partially offset much of these pressures in future periods.

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 to becoming a payments company. Longer term, we expect Payments segment to deliver a high single-digit revenue growth rate. We expect adjusted EBITDA margins to remain in the low-20% range for the full year.

Cloud Solutions had another strong quarter. Segment revenue increased 9% year-over-year to \$69.5 million in the quarter and increased 2.1% sequentially from Q2. As Barry mentioned in his remarks, if businesses exited during 2020 are excluded, cloud grew 18%. Cloud is strengthened by our data-driven marketing solutions, which continue to see a solid rebound with the recovering economy and increased marketing spend. We signed several new DDM clients during the quarter that will benefit us in future periods.

In Q3, cloud's adjusted EBITDA margin improved 160 basis points versus prior year to 27.3%, driven by strong cost management. We do expect the pace of customer activity to moderate in the fourth quarter of 2021, and 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' third quarter 2021 revenue was \$130.3 million, up 4.3% year-over-year. Adjusted EBITDA margin for the third quarter was 13.6%, down 360 basis points largely due to product mix and supply chain disruptions as well as labor and materials inflation. While we are putting pricing initiatives into effect, this does take time to implement and we anticipate that margins will improve in subsequent periods. We are anticipating 2021 top line growth in the low single-digit range, largely due to the continued impacts of COVID; as well as improved adjusted EBITDA margins in the mid-teens due to the value realization initiatives, partner consolidation and cost actions taken in 2020 and the early part of 2021.

Checks' third quarter revenue declined 2.3% from last year to \$172 million as strength in our business checks and new competitive wins helped moderate the anticipated secular declines in the business. Consistent with our long-term expectations for Checks, third quarter adjusted EBITDA margin levels were 44.9%, down 340 basis points. This was largely driven by onboarding new customers and inflation. Once again, we expect selective price increases to partially offset much of these added costs going forward. Based on high renewal rates and new business won in 2020 and year-to-date in 2021, we anticipate Checks to decline in the low single digits for the full year.

Turning now to our balance sheet and cash flow.

We ended the quarter with net debt level of \$1.66 billion, up from \$716.9 million last year due to the First American transaction. Importantly, in the quarter, we retired \$58 million of debt, another demonstration of our financial discipline and commitment to delever. While our net debt-to-adjusted EBITDA ratio was unchanged from the second quarter at 4.3x, our long-term strategic target remains approximately 3x.

Free cash flow, defined as cash provided by operating activities less capital expenditures, was \$30.9 million in the third quarter, up \$11.6 million from the second quarter of 2021 but down from \$41.6 million from last year. The relative decrease was primarily due to higher capital investments. We do expect free cash flow to improve over the next couple of quarters, which will further assist in our deleveraging efforts.

Our Board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on December 6, 2021, to all shareholders of record on November 22, 2021. We did not repurchase common stock in the third quarter. As a reminder: Our capital allocation priorities are to responsibly invest in growth, pay our dividend, reduce debt, return value to our shareholders. We

will evaluate future repurchases on an opportunistic basis.

Turning now to guidance. Today, we are affirming our 2021 expectations. As a reminder: The guidance includes First American; assumes a continued economic recovery; and is subject to, among other things, the macroeconomic unknowns associated with the COVID-19 pandemic, including the Delta variant, as well as the anticipated continued supply chain constraints, labor supply issues and inflation.

For full year 2021, we continue to expect the following: revenue growth of 10% to 12%; excluding First American, revenue growth of 0% to 2%; adjusted EBITDA margin between 20% and 21%; capital expenditures of \$95 million to \$105 million; and an adjusted tax rate of approximately 25%.

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

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Lance Vitanza with Cowen.

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

Congratulations on the strong quarter. Let me see if I can just sort of quickly ask a couple of different questions here. First, on the Payments side with First American, did you say that First American itself grew 12% year-over-year in the quarter? And if that is the case, like could we talk about to what extent does that growth reflect the benefits of cross-selling? Or is it really just that was the pace that it was growing at and the cross-selling benefits, if any, are still sort of [on the come]?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

So Lance, yes, that's correct on the 12% year-over-year growth. And I'll turn it over to Barry to talk about the impact from the Deluxe halo.

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

We do think -- this concept of the Deluxe halo, we believe it's very real. We can see it in the pipeline. We can see it in closed sales. We can see it in bank partner -- not only the bank partner list of potential customers but also closing some bank partners. So we do believe that the 12% is significantly above their historical rate, and it's even above their -- the trajectory rate. So it's great execution by First American, for sure, but there is also the Deluxe halo of bringing additional leads to that business that is helping. So we think there's more...

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

Okay, yes, great. So then on the Payments segment away from First American and just sort of a general question that I get. To what extent, if any, does growth in Payments necessarily reflect cannibalization of the Checks business? In other words, are your customers to some extent simply shifting their business away from paper checks to whether it's ACH payments or some other electronic digital format? Or are they 2 unrelated kind of concepts?

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

A 2-part answer there, Lance. First of all, let's just understand that the Checks business continues to go forward because there are no viable substitutes for the vast majority of business checks that are written today. There are billions of them. Second, our Payments business, non-First American Payments business, has a couple of different aspects. One is our HR and payroll business has really nothing to do with Checks. Our receivables as a service has to do with digitizing and accelerating the order-to-cash cycle and getting cash application happen more quickly. The third business that you did hear us talk about in our prepared remarks was our DPX or Deluxe Payment Exchange. And in that business, we aren't replacing checks, where we are -- instead of mailing a paper check, we are sending an electronic version of a check, often with a payment advice or remittance advice to go along with it. We particularly like that business because it has very attractive margins. And as we told you here, that business almost doubled in size in the third quarter, and it is a very

large market opportunity to convert some of those checks. The other thing we really like about it is that many of those checks that we're converting are not checks that we would have (inaudible) printing. So we are in many ways cannibalizing competitors' print products; and we see that as all net positive, new business that has great margin associated with it and growing at a rapid pace. And in the case where we are cannibalizing checks, at least 50% chance it's coming from somebody else's business, not ours.

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

Perfect. Okay. So then on the cloud side. And I know you said this a couple of times, but I just want to make sure I'm understanding it properly, that growth would have been double what you reported had it not been for businesses -- business exits in 2020. Are you referring to basically businesses that failed in 2020 due to COVID? Is that [the pieces] that went out of business?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

No. There was -- we have some specific business lines that we exited completely and sold; and that were basically removed from the comp base, if you will, that will account to roughly \$20 million a year in sales. So it's not COVID impact. These are business lines that we just full-stop exited.

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

Right, okay. So then the underlying -- I guess it's fair, though, to say that the underlying trend of -- the businesses that you've kept on a go-forward basis are growing at 18%, okay. That -- and that's the point that you're making, okay.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

(inaudible).

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

One more for me, I think, and that is on the Checks side again. The market share gains continue to drive better results, certainly better than we were modeling. And I'm wondering. Did you win any new business in the third quarter? Or is this just the sort of the continued impact from the big wins that you've discussed that occurred earlier in the year? And I guess, related to that, I'm wondering. Do we need to be thinking about tough comps next year as you lap some of these new customer wins on the Checks side?

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

So again a 2-part answer. Yes, we did have additional wins in the second -- I'm sorry, in the third quarter, but we also did implement a number of the wins -- begin implementation of a number of wins from previous periods. And we think that helps us for the next few periods, for sure. We have more deals in the pipeline that we would hope to close that, hopefully, can moderate future periods, out periods like we're seeing in the current periods, but we're very pleased. And as we've said, when we're in competitive situations, we're winning 75% of the time, which is, we think, good news on the stability and the long-term capability for us to continue to generate cash out of Checks.

Operator

Your next question comes from the line of Charlie Strauzer with CJS.

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

Hoping to get some high-level thoughts on 2022, if you could share with us just some [introductory] thoughts there.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

So look. We're not going to issue guidance for 2022 today. We'll be talking about that in our Q4 release, but we're certainly encouraged by momentum in the business. And we see the sales-driven growth that Barry referenced in his opening comments as something that we can continue into the future along the same lines. We certainly had some noise in the quarter, as compared to Q3 in 2020, this year [that, we'd say], normalizes and we get back to those run rates in future periods that look consistence with -- consistent with the guidance that we've issued for this year. And so we feel confident about the results we're seeing and the momentum in the business.

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

That's helpful. And then just looking at the gross margins in the quarter. It's kind of down a meaningful amount year-over-year. I know you've laid out some thoughts on that in the press release, but maybe a little bit more color on as to what drove the lower gross margin in the quarter.

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

Yes. Look, I think a lot of talk in the market around inflation and [its effects] on the overall economy. We're certainly not immune to that. We had meaningful inflationary effects on our business. Think about the physical operations, the physical parts of our business where we run labor in a lockbox facility; costs in our supply chain; material input costs that go into the promo business, as an example. [We saw those] pressures that hit us in Q3. We certainly have actions in place to mitigate that going forward primarily through the form of price increases, but it was a pretty meaningful impact in the period.

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

Understood. And just, Barry, if you could maybe talk a little bit about the cloud business and some of the [things] you're hearing from customers in terms of their willingness to ramp up some discretionary marketing spend to utilize some of your products. What are you hearing from them?

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

Well, clearly the business, the cloud business -- and of course, the real jewel in that business is our data-driven marketing business. That's really leading the performance there in the cloud business overall. And that's happening because financial institutions particularly are significantly reengaging and driving new customer and trying to drive new programs into the market to acquire new customers. And we're a beneficiary of that, for sure. And we don't -- we think that, that will -- it will continue to be strong. We're not sure if it's going to continue at the same level of strength that we're seeing right now, but we think it will continue to be strong for the foreseeable future. The other thing, Charlie, that we're really encouraged by is we've been saying for a bit of time that we're looking to expand outside of our core FI market vertical. And in Q2, we launched in regulated utilities. In this period, you heard us launch into additional markets. And even we are in a test market now with a life insurance carrier. So we are expanding rapidly past our historic core FI business, which is still the heart and soul of the business, but we're opening new doors for future growth that gives us a lot of confidence about the future.

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

That's helpful. And just one last question, on the Checks side. Just looking at it on kind of a same-store basis, what would check volumes look like? They've kind of -- they've historically been down kind of mid- to high single digits. Is that still the case?

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

So Charlie, the way we think about it is we think about total volume. And total volume excluding our wins, the trajectory looks fairly similar. And the rebound after COVID has been solid. And if you look at the trend over a multiyear horizon, the trend really isn't any different. The COVID drop, you normalize that over a 2-year period of time, and the trajectory in the marketplace overall really isn't any different. We're able to mitigate that because of our wins. And the particularly stronger part of that business, of course, (inaudible).

Operator

Your final question comes from the line of Chris McGinnis with Sidoti & Company.

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

I was wondering, Barry. Can you just -- just with Zions, can you just talk about what you were selling to them before the expansion of this relationship? And you -- can you just share how that expansion formed and took place?

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

Sure. So this is a great example. It's another example in a string of examples, Chris, where we take long-standing customer relationships where we have 1 or 2 products and we go in and approach them in a very different way. Instead of trying to sell them one product at a time, instead, we try to understand what their problems are, what their challenges are and then bring together the portfolio of solutions that we have to help the customer succeed. So you've heard us talk about that, last period, with PNC. You've heard us talk about it with

Synovus. And we talk about it this time with Zions. And we had a couple of products with them. And we followed the same model, which was understanding what their problems and their challenges were. And we simply solved a problem for them, but one that maybe is most creative really is creating a solution that they're reselling to their customers to help their customers succeed, leveraging the assets that we have inside of our customers [especially to help the bank] build a new product for themselves.

So we're really proud of that because, I think, it shows this -- the power of this One Deluxe model, not going to a customer trying to sell a product one at a time. Go into the customer, understanding what their problems and their challenges are and what they're trying to do in the marketplace to grow and then helping them build a solution to solve that problem. And that has accelerated throughout our business. We have customers -- we had a customer event the last 2 days in one part of our business, trying to develop customer-driven, new products, customer-delivered or customer-focused product development. And it works. It just works.

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

Great. And just a quick question on First American: Was the growth rate prior to you acquiring the asset in the low single digit, if I remember right? Can you just confirm that?

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

[So that gives us a] proud, strong, healthy business we acquired, but it's historical run rate over many-year horizon was in the low single-digit rate. You're correct. [They did things] to help accelerate that, but the performance that, that team posted today, which we think is pretty outstanding, is well in excess even of their improving trajectory. And we're very proud of them for that. We think the Deluxe halo is part of that, but also so is excellent execution by that team who is just doing a great job.

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

Yes, it's some strong results. Can you just talk about the health of small business that you're seeing? And how reliant are you on that now as you've kind of expanded the offerings and relationships, especially on the financial side?

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

So start with, Chris, our business primarily and increasingly is on a [business to business to small business cases]. So in our -- many of our products are sold through financial institutions who sell them on to their consumers and small businesses. And so we do have significant exposure to small business, but we are -- our primary customers are those reselling those solutions to small businesses. And we are able to continue to expand the relationships in many cases where those distribution partners are selling more of our products and services. You heard us talk about it in HR, payroll and other places as well. So we do have a meaningful part of our business that is small business, but that -- our customer acquisition programs primarily sell through our partners to get to them, where we are not spending heavily massive marketing dollars to try to acquire those small business customers directly. For example, you never see a Deluxe ad on TV or at the Super Bowl trying to get you to come to our website. That just is tremendously inefficient and not our model.

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

Okay, okay. And just in Checks, just a kind of a follow-up, I think, off of Charlie's question, the frequency. You've talked about that a number of times through the pandemic. Is the frequency level pre pandemic? Or are we still trailing that a little bit just kind of given variance and different things like that?

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

Yes, it's -- honestly, I think it's a bit early to tell. We -- the reorder cycle -- we have plenty of reorders that would indicate that the cycle has not particularly changed, but given the weakness in Q2 for the whole economy, it's just kind of hard to see exactly what that looks like on a run rate. But we're pleased to see continuing reordering and pleased in particular to see new small businesses that started during the pandemic in the middle of last year are already into their [reorder cycle. And so] overall (inaudible) we think that's encouraging overall.

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

Great. And then one -- just one last question, just on the guidance and reiterating that this morning. It assumes a bigger step-up in the margin profile. Can you just talk about the changes from Q3 to Q4, especially given the environment of the inflationary pressures, supply chain disruptions? What drives that improvement?

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Certainly. Look. We think about this business as being the guidance we've given, a 20% to 21% EBITDA business. If you look over the course of the last 5 or 6 quarters, I think, with the exception of Q3 2020 which was a real outlier as we pulled back and we had some COVID-relating -- temporary COVID-relating cost savings initiatives, we've pretty consistently been in that range. We do expect to get back to that level in Q4 primarily, as I referenced before, because inflation was pressure to the tune of 100 basis points. And so we think we'll have mitigants for that in place to really help us get back to that kind of low-20% EBITDA target. And as we think about the balance of the year, we issued revenue guidance of 10% to 12%. On a revenue basis, we do think we'll be sort of towards the high end of that range. And on an adjusted EBITDA basis, we think we'll be into the low end of the 20% to 21% range. So we still feel like we can have meaningful improvement on a sequential basis since we've mitigated some of the pressures that we saw in Q1 and feel confident in this important milestone that we obtained last quarter of having legacy Deluxe have sales-driven positive organic growth. And we expect to see that -- and we saw that again in Q3 and expect to see it again in Q4.

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

Great. Congrats on the quarter and good luck in Q4.

Operator

I will now turn the call back over to Tom Morabito for closing remarks.

Thomas C. Morabito Deluxe Corporation - VP of IR

Thanks, Tamiya. Before we conclude, I'd like to mention the following conferences that management will be participating in: the Citi fintech conference on November 18, the Stephens annual investor conference on November 29, the Wells Fargo fifth annual TMT summit on December 1, Needham's 24th annual growth conference on January 12, 2022, and the Sidoti winter small cap conference on January 20.

Thank you again for joining us today. Please stay healthy and safe. And we look forward to speaking with you in February as we share our fourth quarter and full year 2021 results.

Operator

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

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