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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe First Quarter 2022 Earnings Conference Call. (Operator Instructions). Today's call is being recorded. We will begin with opening remarks and introductions. And 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 First Quarter 2022 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. We had a strong quarter with better-than-expected revenue growth. Company-wide revenue growth was 26%. Excluding First American, revenue increased 7.1%. Once again, we delivered sales-driven growth in all 4 segments. We did benefit from previously announced pricing actions. However, we're particularly pleased to report that we have continued to experience strong volume despite these pricing actions. This demonstrates the fundamental strength of our business and the continued strong demand for our products as we have been sharing with you for some time.

Our transformation into a trusted payments and data company is continuing as demonstrated by our strong revenue performance. While adjusted EBITDA margin rate was impacted by inflation and other factors, total adjusted EBITDA dollars improved over 10% year-over-year, consistent with our expectations. During the quarter, payments performance was primarily driven by the continuing positive results of First American and growth in our digital payment services.

We continue to be proud of our transformation into a payments company. As a reminder, we're on track for payments to equal checks as our largest business by revenue heading into 2023, another key milestone for us. Cloud growth was driven by data-driven marketing or

GEM. Promotional Solutions benefited from the implementation of key wins from last year and checks performance was driven primarily by business checks and new competitive wins.

Before I go into additional highlights, I want to welcome our new Chief Technology and Digital Officer; Yogaraj Jayaprakasam to the executive leadership team. Yogs has more than 20 years of digital, data and technology engineering experience, most recently with American Express, serving as unit CIO and Head of Engineering for B2B digital payments, experience and data platforms. His background is directly on point for the future we are building here at Deluxe. I'm confident Yogs will help us accelerate our transformation into a payments and data company.

I also want to be sure to thank my fellow Deluxers for their continued dedication and unwavering commitment to our customers. This dedication recently led Newsweek naming Deluxe one of America's most trustworthy companies. This is something we're very proud of and is a recognition of a long-term consistent commitment of all the Deluxers.

Now to the consolidated highlights from the quarter. Revenue was \$556 million, up 26% year-over-year. Not including the positive impact of First American, sales-driven revenue was up a strong 7.1%. This was the fourth consecutive quarter of sales-driven growth and proves that our ability to grow is real and sustainable. Adjusted EBITDA improved to 10.1% to \$99.6 million. Adjusted EBITDA margin was 17.9%, consistent with our guidance. Scott will provide details.

Moving on to some segment revenue highlights. For the first quarter, our Payments segment more than doubled year-over-year. This was driven by the 2021 addition and outperformance of First American, which grew this quarter at 8.4%. As you know, First American has been a low single-digit grower prior to the acquisition. Since the acquisition and the implementation of our One Deluxe model with our trusted reputation, solid balance sheet and deep customer relationships, First American has been exceeding our expectations. Our belief that we could help First American grow faster is proving to be true.

Being able to cross-sell to our approximately 4,000 financial institutions and 4 million small business customers, First American is successfully offering a host of Deluxe products. In addition, during Q1, First American signed more financial institutions during the quarter than they would have previously in a typical year, quite simply the One Deluxe model works.

Excluding First American, payments revenue increased 4.3%, with growth in our other major businesses, particularly digital payments and lockbox. Our payables as a service offerings, which include our Deluxe Payment Exchanger, DPX and Medical Payment Exchange or MPX continue to experience strong growth. In terms of new wins, we signed BillGO, which is a large payment platform used by over 30 million consumers, thousands of financial institutions, fintechs and billers.

BillGO will use our digital DPX technology to process millions of payments through the Deluxe network, which will lower costs and increase efficiencies from BillGO's customers. Cloud Solutions had another solid quarter, growing 11.7% year-over-year. Cloud performance benefited from meeting a full relationship expansion with key clients, sales wins and positive impacts of a recovering economy in our DDM business.

We continue to pursue additional verticals beyond financial institutions. And in the first quarter, key wins once again included new customers and programs in the telecom, retail, e-commerce and high-tech security sectors. Also in cloud, we're pleased to announce we have completed the sale of our Australian web hosting business originally announced in March. We will continue to assess our portfolio as we focus on businesses that can benefit from the One Deluxe model, and those business is well positioned in secular growth markets.

Now on to our Promotional Solutions segment. Promotional Solutions had another strong quarter on the top line, improving 7% year-over-year, positively impacted by core business essential products as well as key wins we announced last year. During the quarter, we partnered with one of the most well-known brands in the world, Porsche to become a premium preferred supplier to its brand in North America. This is an exciting new relationship for Deluxe. First, we'll be providing promotional items, signage and other services in support of Porsche's new racing series in North America called the Carrera Cup. Second, through this relationship, we are a sponsor of the series, which will drive brand awareness in new markets.

Finally, our very profitable cash-generating check business also had another strong quarter, growing 6.9% 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 price increases to offset inflationary pressures. Beyond its strength in generating free cash flow, check's significant strategic value is to provide leads for our other segments. Examples from the first quarter where we sold First American Merchant Services to existing checks customers, include Virginia Credit Union, a Richmond-based financial institution of \$5 million in assets. Century Bank, a community bank in New Mexico, which appreciated the benefits of partnering with a true processor versus an ISO and Freedom First Credit Union with nearly \$900 million in assets and serving 33 counties across South and Central Virginia.

In each case, Deluxe's long-standing trusted relationships led to our sales teams being able to successfully cross-sell additional products. These are clear examples that the One Deluxe model works. In summary, we're pleased with our first quarter results, which plainly show our momentum and we're off to a strong start in 2022. We continue to be confident in our guidance of 8% to 10% revenue growth with approximately 20% adjusted EBITDA margin for the full year. The first quarter performance and outlook are further evidence of our transformation into a payments and data company. 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 before moving on to the segment. For the first quarter, we posted total revenue of \$556 million, up 26% year-over-year. Not including First American, revenue came in at \$472.7 million, up 7.1% year-over-year. The revenue performance was driven by a combination of solid ongoing demand for our products and price increases.

We reported first quarter GAAP net income of \$9.7 million or \$0.22 per share in the quarter. Compared to the prior year first quarter, GAAP net income was impacted by \$12.7 million in acquisition amortization as well as increased interest expense, both related to the First American acquisition. Adjusted EBITDA came in at \$99.6 million, up 10.1% from last year, driven by the acquisition and strong performance of First America.

Adjusted EBITDA margin was 17.9%, down from 20.5% from last year's first quarter. The adjusted EBITDA margin rate decline was expected and due to a return to our pre-COVID seasonality patterns in our corporate cost structure and product mix, planned technology investments and inflationary pressures, partially offset by pricing actions and operating leverage from strong revenue growth. These factors were known and consistent with our full year guidance.

As a reminder, the first quarter is traditionally the lowest margin quarter of the year, and we expect to progressively expand margin rates throughout the year. First quarter adjusted EPS came in at \$1.05, down from \$1.26 from last year's first quarter. The decrease was driven by the operational items previously mentioned, higher interest expense from the First American acquisition as well as higher depreciation and amortization.

First American in total was slightly accretive to adjusted EPS ahead of our expectations. Now turning to our segment details. Payments grew first quarter revenue 109.1% year-over-year to \$166.2 million, largely driven by the acquisition and outperformance of First American. Excluding First American, Payments revenue increased 4.3% year-over-year. In addition to First American's strong performance, we also experienced growth in our core payments. Including First American, Payments adjusted EBITDA increased 98.9% in the quarter, and adjusted EBITDA margin was 21.9%, down 110 basis points due primarily to continued product investments and inflationary pressure, partially offset by price increases. With the addition of First American, our Payments segment has more than doubled in size. In the first quarter, First American's margins were modestly diluted to payments, but were accretive to overall company margins.

Longer term, we expect the Payments segment to deliver a high single-digit revenue growth rate. And for 2022, we expect adjusted EBITDA margins to be in the low 20% range. Cloud Solutions had another strong quarter with segment revenue increasing up 11.7% year-over-year to \$69.5 million in the quarter. Whilst growth continues to be driven by our DDM solutions, which is benefiting from meaningful relationship expansion with key clients, sales wins, positive impacts of a recovering economy and increased marketing spend by our customers. We continue to add new DDM clients and new industry verticals and are extending into new product lines, which will

benefit us going forward.

As Barry mentioned, in March, we announced the sale of our Australian web-hosting business, which is part of our ongoing strategy to streamline and optimize our portfolio. The financial impact on the first quarter was negligible. The cloud's revenue will be impacted by about \$20 million for the remainder of the year. This impact is included in our reaffirmed guidance. Cloud adjusted EBITDA margin in the quarter declined 280 basis points versus prior year to 24.9% due to changes in product mix resulting from strong revenue growth in the DDM business.

For 2022 and excluding the Australian sale, we expected to see mid-single-digit revenue growth and adjusted EBITDA margins in the low to mid-20% range. Adjusting for the impact of the Australian sale, we now expect to see flat to low single-digit revenue decline for the year. Promotional Solutions first quarter revenue was \$133.2 million, up 7% year-over-year, driven by a core business essentials product, key wins we announced last year and price increases to offset inflationary pressures.

Adjusted EBITDA margin for the quarter was 12.8%, down 140 basis points, largely due to increased paper and delivery costs as well as product mix, partially offset by pricing. In April, we completed the sale of one of our promotional solutions product areas Deluxe Strategic Sourcing or DSS. This exit is a part of our ongoing efforts to further simplify the business. The divestiture of DSS is expected to have a \$10 million impact to revenue in 2022 with very little impact to EBITDA dollars. And these factors are included in our guidance reaffirmation.

We are anticipating 2022 top line growth in the low single-digit range and adjusted EBITDA margins in the mid-teens. Check's first quarter revenue increased 6.9% from last year to \$187.1 million with new competitive wins, pricing actions and strength in our business checks outpaced the continued secular declines in the business. I should note that while we are very pleased with these results, we do not expect to see this level of outperformance to continue for the remainder of the year as we will begin to lap new customer onboarding activity from the second half of 2021.

As a result, we expect to have low single-digit revenue declines for the remainder of the year. First quarter adjusted EBITDA margins were 44.3%, down 340 basis points year-over-year, largely driven by the addition of lower margin new customers. We also experienced inflationary pressures, which notably related to delivery expense and input materials that were largely offset by price increases.

Adjusted EBITDA dollars remained virtually flat year-over-year. As a reminder, we anticipate the stabilization of Checks margins due to the implementation of our new HP and on-demand technology. Turning now to our balance sheet and cash flow. We ended the quarter with a net debt level of \$1.65 billion, up from \$714.6 million last year due to the First American transaction. Our net debt to adjusted EBITDA ratio was 4.0x at the end of the quarter, flat with 4.0x at the end -- at year-end 2021.

Our long-term strategic target remains approximately 3.0x. Free cash flow, defined as cash provided by operating activities less capital expenditures, was \$13.5 million in the first quarter, down \$4.4 million from the first quarter of 2021. We do expect overall free cash flow to increase in 2022 compared to 2021 as investments in our major tech platform modernization will decrease meaningfully later this year.

Our Board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on June 6, 2022, to all shareholders of record on May 23, 2022. As a reminder, our capital allocation priorities are to responsibly invest in growth, pay our dividend, reduce debt and return value to our shareholders.

Turning now to guidance. Today, we are reiterating our expectations for 2022. This guidance includes a partially prior year First American and is subject to, among other things, prevailing macroeconomic conditions, anticipated continued supply chain constraints, labor supply issues, inflation and the impact of recent divestitures. 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, interest expense of \$90 million, an adjusted tax rate of 26%. Depreciation and amortization of \$180 million, of which acquisition amortization is approximately \$90 million. Average outstanding share count of 43.5 million shares and capital expenditures of \$105 million.

To summarize, I believe we're off to a positive start to the year with the first quarter 2022 results. We look forward to continuing the momentum in the coming quarters. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first session will come from Charlie Strauzer with CJS.

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

A couple of questions for you. First on the First American side, it looks like a little bit slower there in the quarter. Longer term, kind of what are you expecting kind of a growth rate there. If you can maybe give us a little color on that.

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

Yes, Charlie, we're still very proud of the results at First American. As you know, that business when we acquired it had historically been a low single-digit revenue grower. And in the 3 quarters that we've owned it, it has been a high single or double-digit revenue growth business. We -- when we acquired it, we told everyone we thought we would get it to mid-single digits, and we're very confident of that, and we think we can do better over time. And in the first 3 quarters, we think are is a really great sort of set of proof points on that.

I mean the best proof point about what the future can look like, Charlie, is that in the first quarter, the First American team sold as many new banks in the first quarter as they would do in a typical year. So that is a great leading indicator about sort of the power of the One Deluxe model applied at First American and what we think can come going forward in the future.

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

Great. And then it looks like you had a pretty strong quarter revenue-wise versus my model. Kind of what was the main driver there? Was it mostly pricing on the check side or was it across the board? And then secondly, on the check side, obviously, much better-than-expected results there. How long can you kind of keep up that pace in that segment?

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

Yes, Charlie, we feel really happy with the momentum that we're seeing across the business. The revenue growth of 7.1%, excluding First American, it was roughly a relatively even blend between pricing and volume. And so I think that was a very healthy profile delivering both volume growth as well as pricing. The way we think about the pricing is it was largely amounted to a pass-through of inflationary costs and pressures that are affecting the business. And so the net effect of that is sort of higher revenue levels, same EBITDA dollar generation, but a little bit lower margin rate as a result of simply adding cost to our cost of goods and offsetting that and passing that through in the form of pricing.

But overall, we felt like it was a really healthy blend of both volume increases as well as pricing to offset inflationary pressures in the business. Checks continues its strong performance, continues to win new business. As you recall, we had a series of large wins last year. So we're really happy with the momentum that we've seen within the check business now. And just to signal for the balance of the year, we do expect -- we don't expect to have growth rates at the level we've seen in both Q4 and Q1. And throughout the year as we continue to lap some of these new wins that we onboarded late in 2021. However, the underlying dynamics in the business are quite healthy.

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

Got it. That's a good segue to my last question, just -- I know you don't give quarterly guidance, but maybe we can talk about the cadence of how you get to kind of the 20% EBITDA margin for the full year.

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

Well, so there's a few layers to that, Charlie. So as we talked about a little bit during the last quarterly call, there is some seasonality, and we see ourselves as returning to seasonal patterns similar to what we experienced as a company before COVID. There's a number of onetime factors that affected our cadence over the course of the quarters between '20 and '21. We see our model this year returning to

similar patterns we've seen in the past. That seasonality is really driven by 2 things.

First of all, there is some seasonality in the rate at which we occur benefits costs, which are highest in Q1 and they decrease throughout the balance of the year. And there's some seasonality around the mix of goods we sell primarily in our Promotional Solutions business, where we have a series of high-margin goods that are sold as part of our year-end promotional segment business that doesn't repeat in Q1. And so we still feel that we are in a good position from a margin rate perspective that will continue to increase steadily throughout the year based on some of the seasonal factors. And look, it's Q1. We're continuing to watch it, but feel good about the momentum we're seeing so far.

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

Excellent. That's great. And then, just lastly, excited you hired a new CTO. Maybe you can give us a little bit more about his background and what he brings to the table at Deluxe.

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

Charlie, we're really pleased to have Yogs join us. He's had a very distinguished career at American Express and we went specifically to the market. This is essentially a new role where we are adding digital capability together with our technology organization, which I think is a really clear message and signal about where the company is headed, that we are doubling down on our focus on digitization of all of our businesses, but also a big message that we are clearly focused on being a payments and data company.

And that is where Yogs background and experience for more than a decade at American Express is going to be really helpful to us. Yogs had lots of choices of what he could decide to do next and he was very attracted to our transformation story here about taking this proud company with 4,000 bank partners, 4 million small businesses, hundreds of the world's leading brands and building platforms as a service in the payments and data marketplaces, and he wants to be part of it and even started this weekend, is off to a great start.

But I'd say, Charlie, the key message there, though, is to understand we really need him. We are a payments and data company, and we are doubling down there, bringing in talent to help us accelerate that and bringing people in from some of the best payments companies in the world is one way for us to help accelerate that progress.

Operator

Our next question will come from Christine Karout with Sidoti.

Christine Karout

So I'm stepping in for Chris McGinnis this morning, and I have a few questions. The first is going to be on payments organic growth. So how do you see that trending for the remainder of the year? And if you're expecting an improvement, what are the factors in the improvement of the organic growth rate?

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

Yes. And so in the Payments business overall, there's what we call the original businesses, which are around accounts receivable, accounts payable and small business payments, specifically HR and payroll and of course, the assets with First American. And the businesses around AR, AP and HR payroll grew mid-single digits. Our expectation for those businesses is that they will trend up towards high single towards lower double digits.

We are very pleased with the pipeline, and we have a backlog of things to get implemented. We continue to work on the platform or the backlog, I'm sorry, continue to work on the backlog. But I got to tell you, you can't see it specifically in the numbers, but in the areas where we have the most optimism for growth around our DPX, the Deluxe Payment Exchange and MPX, Medical Payment Exchange, there are -- those businesses are seeing a very, very material growth, and we continue to expect to put more fuel in the tank and get those customers that are in the implementation queue boarded and to see sort of steady improvement with that business over time.

Christine Karout

Okay. Great. So my next question, was there any impact of Omicron on operations in 1Q '22?

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

We're certainly not immune like any business to COVID implications. And I'm sure there was some impact, but we have not quantified that in the first quarter to a specific number.

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

I would just add that we've referenced it a few times. But certainly, inflation is everywhere. It's affected us in our cost of goods. We felt like we were successfully able to offset that through price increases sort of almost 1:1. It differed based on product line, of course, not directly Omicron, but the kind of macroeconomic conditions and indirectly as it relates to our staffing, we felt like we were able to operate effectively and push through any implications that we're weighing on the business.

Christine Karout

Yes. That actually was my next question. So what are you -- yes, on the inflation front. So where are you seeing the greatest cost pressure? And at what point in the -- like what point are you in, in the price-cost equation?

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

Yes. As we mentioned in the opening comments, we feel like we were able to successfully sort of one-to-one pass along the inflationary costs and our cost of goods in the form of price increases. The primary areas where we've seen pressure has been in input materials used in factoring processes, sourced goods that we distribute on behalf of our customers and wage rates in our operational facilities, whether it be a lockbox facility, contact center or manufacturing environment. Those are the primary areas where we've seen impacts from inflation. But again, we feel like we've covered in the quarter.

Christine Karout

Great. And then you guys might have touched on this, but could you -- on the -- on check performance in the quarter, was the growth driven by easier comparison and the rebound in the market. I am so sorry, let me rephrase it. So for check performance in the quarter, was growth driven by an easier comparison and the rebound in the market and likely to normalize for the remainder of the year?

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

I would say that there's a number of factors here, but the biggest driver has been some of the new wins that we've talked about in prior quarters from late 2021, where we feel like we've gained share in the market. And those wins are not in the comp base, if you call that an easier compare, but that's actually because of proactive actions you've taken and business that we've won. That's been the real driver. And we saw a stronger performance in our business checks, have held up really well as compared to personal checks. We saw some really strong revenue growth in the Business Check segment.

Christine Karout

Okay. Great. And then in the checks business, can you just restate the EBITDA margin profile of the business? Is it 44% or 45%.

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

So we've talked about check margins as sort of stabilizing in the mid-40% range. And so it can give us a working margin around that level. We've invested heavily in the print technology. We're midway through the implementation of a new set of capabilities to drive efficiency in the manufacturing process for the production of checks to stabilize those margins. And so we will continue to drive efficiency in that operation as the secular declines in the space continue to exist. And so we look for that sort of mid-40s as being a stabilization point for the interim period on check margin.

Operator

Our next question will come from Charles Nabhan with Stephens.

Charles Joseph Nabhan *Stephens Inc., Research Division - MD & Analyst*

You alluded to some investments, some product investments and payments on your slide deck. And I just want to get some specifics around there in terms of the verticals and the distribution avenues that you might be investing in as well as your product road map for the division going forward?

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

Sure. That's a big question. So let me give you sort of a headline on that. We are very focused in 3 areas for growth. An area we call receivables as this is the automation of the entire order to cash management process. The second is sometimes called digital payments or payables or disbursements. And this is where we are automating and taking paper out of the disbursement flow. And the third is around HR and payroll for small businesses.

So specifically on the receivables as a service business, our model there is to sell a white label package that gets resold through the bank channel. So we have a number of banks that are already live and we have a number of banks in queue to go live. What we find particularly encouraging is the banks that have already gone live have long queues of customers, their customers, bank customers to come on to this accounts receivables management platform. And we are in the process of adding automation tools to allow us to board those merchants faster and also improve the customer or the user experience and the user interface, which will make the product even more compelling.

In our payables business, the Medical Payment Exchange and the Deluxe Payment Exchange, in these businesses, we are taking what would normally be a printed explanation of benefits or reconciliation to an invoice that would go into an envelope with a paper check and we are digitizing that process and allowing it to arrive at the customer via e-mail with an embedded digital check that can then be printed if that is the process of the recipients or deposited automatically and electronically, fully digitizing the experience end-to-end.

We are seeing fantastic growth in that space as we are taking millions of dollars of expense out for our customers through the digitization of that delivery of that payment. The final area is around HR payroll. We think this is a market at the low end that is very underserved and underpenetrated by the big guys.

Our tools are particularly well suited here for customers with 50 or fewer employees, and we are seeing terrific growth and uptake, both through direct sales, through bank partner sales. And what we're also excited about is the addition of First American and their 150,000 small business customers as an additional target for those solutions. So those are the 3 areas where we are focused and where we're continuing to make investments for growth. Receivables in the service, payables and HR payroll services for small business.

Charles Joseph Nabhan *Stephens Inc., Research Division - MD & Analyst*

Got it. And just as a quick follow-up. Could you speak to the timing or how you think about leverage going forward and when you see yourself reaching the 3x target.

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

Yes. We continue to have that as one of the main drivers of our capital allocation policy, right? We're going to look for areas to responsibly invest in growth in the business, pay our dividend and apply as cash as leveraging the balance sheet. Q1, has been a low free cash flow generative quarter for a lot of the reasons we talked about the seasonality of the business. We do expect free cash flow to pick up the same fleet throughout the balance of the year, enabling us to further deleverage over the course of the year. And it's going to take us a couple of years to get to the 3.0 target that we've articulated, but we're committed to continuing to take every extra dollar of free cash flow and apply it against the debt balances that we have to steadily work towards that long-term target.

Operator

And that will conclude today's question-and-answer session. I would now like to turn the call back to Tom Morabito for closing comments.

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

Thanks, Savanna. Before we conclude, I'd like to mention that management will be participating in the following conferences: The 17th Annual Needham Technology and Media Conference on May 17; Cowen's 50th Annual Technology Media and Telecom Conference on June 1; the Loop Capital Markets Investor Conference on June 2; and Baird's Consumer Technology and Services Conference on June 8. Thank you again for joining us today, and we look forward to speaking with you in August as we share our second quarter 2022 results.

Operator

And this will conclude today's conference. Thank you for your participation, and you may now disconnect.

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