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Q2 2022 Deluxe Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe Second Quarter 2022 Earnings Conference Call. (Operator Instructions) and today's call is being recorded. We will begin with opening remarks and introductions. 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 Second 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, risk associated 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 ending December 31, 2021, and in other company SEC filings.

On the call today, we will discuss non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted EPS 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.

I would also like to note that beginning this quarter and on Slide 23 to 26 of this presentation, we are providing additional reconciliations of GAAP EPS to adjusted EPS, which should help with your modeling. Now I'll turn it over to Barry.

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

Thanks, Tom, and good morning, everyone. Deluxe delivered its fifth consecutive quarter of year-over-year sales-driven growth with healthy increases in all 4 of our business segments. Importantly, we're now on track to deliver our second consecutive year of sales-driven revenue growth, a performance not seen by this company in over a decade.

Beyond a doubt, this trajectory shows the success of our transformation into a payments and data company and our One Deluxe model. (inaudible) revenue increased this quarter nearly 18% to \$563 million and excluding incremental revenue from First American and business exits during the quarter, revenue increased nearly 7%.

Similar to the first quarter, ongoing demand for our products and services remained strong. We also benefited from pricing actions. And despite these moves, we continue to experience strong volumes which demonstrates the durability of the business across our segments. Total adjusted EBITDA dollars increased year-over-year, while our adjusted EBITDA margin rate of 18.1% was impacted by inflationary pressures, supply chain disruption, specifically in the higher-margin portion of our Promotional Solutions business and other factors which Scott will detail in a few minutes.

We do expect supply availability to improve going forward. Like most companies, inflation is having an impact on our operations. But between price increases and effective cost management, we expect these pressures to moderate throughout the year. Importantly, even with the impacts of inflation, we have not seen indications of a slowdown in business activity from our small and medium-sized business customers.

Before I go into the segment highlights, I want to be sure to thank my fellow Deluxers for their continued dedication and long-term commitment to our customers. And for the critical role they are playing in making Deluxe a trusted payments and a data company. Moving on to some segment revenue highlights.

For the second quarter, revenue in our Payments segment increased nearly 66% year-over-year with stable margins. This was driven by the 2021 addition and strong performance of First American, which grew this quarter at nearly 7%. As a reminder, First American has been a low single-digit grower prior to acquisition. But our fundamental thesis was that we could elevate these growth rates.

Since the acquisition, we've proven that Deluxe halo is real, our trusted reputation, solid balance sheet and deep customer relationships has enabled First American to consistently exceed all expectations. We've clearly proven our One Deluxe model works and have now proven how the model extends well the strategic acquisitions like First America.

Excluding First American, Payments revenue increased nearly 7% as we saw strong growth across our major products -- sales products. In particular, we saw strong growth in our payables as a service offerings, which include our Deluxe Payment Exchange or DPX and lockbox. In terms of new wins, we signed on Dupaco Credit Union, a large Midwest regional credit union and also an existing Deluxe customer for checks, branch capture and remote deposit capture.

We'll now be providing merchant services to Dupaco, and this is a great example of how our cross-sell strategy works. Similarly, we'll also be providing merchant services to ChoiceOne Bank, one of Michigan's largest banks. We remain on track for our payments business to exceed checks, becoming our largest revenue business in 2023. This will be a first in our 107-year history, another key milestone as a payments and a data company.

Cloud Solutions had another strong quarter, growing 7% year-over-year, not including business exits. Cloud performance was driven by our DDM business, which experienced record revenue in double-digit growth. Our continued investments have allowed us to further develop the platform, and the results have been very positive.

These investments have enabled meaningful relationship expansion with key clients and new sales wins and has led to expansion into non-FI verticals, such as retail, e-commerce, and high-tech security among others. We continue to have success diversifying our business to less interest rate sensitive areas.

Within FIs, we're seeing non-mortgage-related growth in business banking, nonmortgage lending, consumer checking and consumer deposits. Anticipating these market trends and adjusting to meet new and changing demand has been a key driver of our success in DDM.

Now on to our Promotional Solutions segment. Promotional Solutions had another strong quarter on the top line, improving nearly 6% year-over-year, excluding business exits. The growth was driven by key wins that benefited from our cross-sell model. Today, we're announcing that we have sold our retail packaging business within Promotional Solutions.

These businesses did not fit into our long-term strategic plans and the divestitures will allow us to focus on businesses with better

growth and margin profiles. Finally, our very profitable cash-generating check business had a third strong quarter in a row, growing 7% year-over-year, which is significantly better than long-term industry trends.

Going forward, we continue to expect very high renewal rates and to win share in the marketplace. In addition, we expect to support our strong margins in this business through our new print-on-demand technology, which we've discussed previously.

In summary, we're particularly pleased with our revenue growth in the second quarter, which demonstrates our clear momentum and transformation into a payments and a data company. We have plans in place to ensure delivery of the second half and solid full year performance despite inflationary and supply chain 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 consolidated highlights for the quarter before moving on to the segments. For the second quarter, we posted total revenue of \$563 million, up 17.7% year-over-year, not including incremental revenue from the First American acquisition and business exits during the quarter, revenue increased 6.6% year-over-year.

The revenue performance was driven by a combination of solid ongoing demand for our products and price increases. We reported second quarter GAAP net income of \$22.1 million or \$0.50 per share in the quarter and included gains of \$17.5 million from the sale of the Australian web hosting business and a call center facility, offset by an \$8 million increase in acquisition amortization from the First American acquisition and an increase in interest expense of \$11.9 million driven by this transaction and rising interest rates.

Adjusted EBITDA came in at \$101.7 million, up 4.3% from last year, driven by the acquisition and strong performance of First American. Adjusted EBITDA margin was 18.1%, down from 20.4% in last year's second quarter. The adjusted EBITDA margin rate decline was largely due to inflation, supply chain disruptions within the higher-margin products in our Promotional Solutions segment and the previously announced technology investments, partially offset by pricing actions and operating leverage from strong revenue growth.

We expect margin rates to expand in the second half of the year. Second quarter adjusted EPS came in at \$0.99, down from \$1.25 in last year's second quarter. The decrease was driven by the operational items and incremental interest expense previously mentioned as well as increased depreciation and amortization.

Now turning to our segment details. Payments grew second quarter revenue 65.7% year-over-year to \$171.2 million, largely driven by the acquisition and outperformance of First American. As a reminder, we closed on the First American acquisition on June 1, 2021, so it was only in the Q2 prior year comparables for 1 month.

Excluding First American, Payments revenue increased 6.7% year-over-year. In addition to First American's strong performance, we also experienced growth in our core payments business. Including First American, Payments adjusted EBITDA margin was 20.4% consistent with last year. With the addition of First American, our Payments segment has more than doubled in size, in the second quarter, First American's margins were modestly dilutive to payments but accretive to the 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. Excluding the impact of business exits, segment revenue increased 7% year-over-year to \$68.6 million in the quarter. As reported, which includes the impact from exits, that was up approximately 1% year-over-year.

Cloud's growth continues to be driven by our DDM solutions, which delivered record results and is benefiting from meaningful relationship expansion with key clients, sales wins, and increased marketing spend by our customers. We continue to add new DDM clients to new industry verticals and extending into new product lines, which should generate solid revenue growth going forward.

Cloud's adjusted EBITDA margin in the quarter declined 210 basis points versus prior year to 25.5% due to changes in product mix

resulting from strong revenue growth in the DDM business. For 2022, we expect to see low single-digit revenue growth, reflecting a \$16 million impact from business exits.

We expect adjusted EBITDA margins in the low to mid-20% range. Promotional Solutions second quarter revenue was \$139.3 million, up 3.2% year-over-year, driven by new sales wins and pricing increases, partially offset by business exits. Excluding the impact from business exits, Promotional Solutions second quarter revenue grew 5.9%. Promotional Solutions adjusted EBITDA margin for the quarter was 10.5%, down 540 basis points, largely as a result of inflationary pressures and lower revenue and higher margin products due to supply chain disruptions.

As Barry mentioned, we have sold our retail packaging business within Promotional Solutions, including the previously announced exit of our DSS business, all of these smaller exited businesses from the segment generated approximately \$30 million in revenue and negligible adjusted EBITDA in 2021.

Including DSS, these divestitures are expected to have about a \$15 million revenue impact for the remainder of the year with very little impact to EBITDA dollars. These factors are included in our updated guidance. We do anticipate that this segment will see meaningful improvements to adjusted EBITDA margins in the second half consistent with our long-term expectations.

Checks second quarter revenue increased 7% from last year to \$183.9 million as new competitive wins, pricing actions and strength in our business checks outpaced the secular declines in the industry. As is the case in Q1, we are very pleased with these results. We do not expect this level of outperformance to continue for the remainder of the year, as we will begin to (inaudible) new customer onboarding activity that occurred in the second half of Q3 2021.

As a result, we expect to have low single-digit revenue declines for the remainder of the year, primarily driven by the tougher comparables in Q4 of 2021. Second quarter adjusted EBITDA margins were 44.9%, down 180 basis points year-over-year, largely driven by the addition of lower margin new customers.

This was a sequential improvement from 44.3% in the first quarter and reflected strong performance given the inflationary environment. Turning now to our balance sheet and cash flow. We ended the quarter with a net debt level of \$1.63 billion, down from \$1.67 billion last year as we continue to pay down our debt levels which had increased due to the First American transaction.

Our net debt to adjusted EBITDA ratio was 3.9x at the end of the quarter, slightly improved from 4.0x at the end of 2021. Our long-term strategic target remains approximately 3x. Free cash flow, defined as cash provided by operating activities less capital expenditures, was \$13.5 million in the second quarter, down \$5.8 million from the second quarter of 2021, driven by working capital changes due to the strong growth in the business, higher interest expense and higher cash taxes.

We do expect overall free cash flow to improve in the second half of 2022 as compared to the first half of the year. Our Board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on September 6, 2022, to all shareholders of record on August 22, 2022.

As a reminder, our capital allocation priorities are to responsibly invest in growth, pay our dividends, reduce debt and return value to our shareholders. Turning now to guidance. Given our strong revenue growth and the impact of inflation and supply chain disruptions that had on our margin rates, today, we are updating our guidance for 2022.

This guidance includes a partial prior year of 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 the full year 2022, we are now expecting the following, keeping in mind that all figures are approximate.

We are increasing our revenue growth rate to 10% to 12%, excluding the impact of business exits. This equates to 8% to 10% revenue growth on an as-reported basis. We are modifying our full year adjusted EBITDA margin rate to 18.5% to 19%, but on higher-than-planned revenue. This reflects the margin impact of the pass-through of inflationary pressures and supply chain disruptions

for higher-margin goods in our Promotional Solutions business.

Interest expense of \$95 million and 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 the second quarter results demonstrate our successful transformation into a payments and data company, the ongoing success of our One Deluxe model. We look forward to further executing on our plan in the second half of the year.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

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

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

Lance here. Bear with me here because I want to set this question up, but there is a question coming here. So revenue came in obviously well ahead of our expectations while EBITDA in dollar terms, forget about the margin, but in dollar terms was a little bit weaker than we had expected.

So my question is how much of the revenue outperformance that you're seeing was volume rather than price? And the reason I ask is, and I want your comment on this, my operating hypothesis is that to the extent that this revenue outperformance that you're seeing to the extent that it's driven by better-than-expected volumes that bodes well for next year when costs presumably are going to ease at some point.

And at which point, you'll be growing revenues off of this higher 2022 base. If on the other hand, the revenue outperformance is simply an artifact of higher pricing than to cover cost inflation, then I'm worried that you'll probably have a harder time growing EBITDA dollars next year, let alone getting back to a better margin structure. So do you agree with the premise. And in any case, I am curious on the split between price and volume and the outperformance.

Scott C. Bomar Deluxe Corporation - Senior VP & CFO

Lance, this is Scott. So similar to the first quarter, we saw a nice even balance with slightly more than half of the revenue growth coming from increased volume. And so we felt like that was a healthy combination of volume and pricing.

And so look, we do think that we are certainly cautiously optimistic about the back half of the year and the volumes that we'll see, but feel like there is some decent momentum and it's not all price driven. Barry, anything you want to add to that?

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

The other thing I would just add on that, Lance, in this quarter, in particular, the supply chain and the inflation impact in one piece of our promotional products business was the place that really had slowed us a bit here. But all the 4 businesses had great revenue growth, except for the promotional business because of this one impact had really healthy margins. So it gives us a lot of optimism for the future.

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

Okay. Great. And then just -- so the July side -- you mentioned this, Barry, in your remarks, but the July 6 announcement regarding Dupaco community, that looks like a really strong embodiment of the cross-selling potential. But I wonder how competitive was Dupaco's process, did you need to offer promotional pricing or bend over -- like was there anything there that would make that perhaps less attractive than it would seem at first blush, any color around that would be helpful. How the process came to fruition?

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

We're really proud of this deal as well as a few other deals that we can't use their names. And it's a real true example of leveraging the relationship that exists within Deluxe for the benefit of First American. And I would call it a pretty vanilla straight-up transaction, but we

had multiple products already with the credit union.

And we expanded that relationship by offering the additional service, and we're able to get them have a conversation with the decision makers because we had an existing relationship. And we're doing that over and over again. And that was part of the hypothesis and the thesis for the investment in First American, and it is bearing fruit and proving the point that One Deluxe extends not only across the existing enterprise products that we have, but even to strategic acquisitions like with First America.

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

Okay. Great. And then, Barry, you mentioned that you're not seeing a slowdown. And I think -- I don't (inaudible) get this wrong, but I think you said you're not seeing a slowdown in activity despite inflation from your small and medium-sized customers. What about the pace of new business formation, which I would imagine is fairly critical for you, right? You want to see lots of new businesses being formed. Any changes there that you're seeing?

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

Yes. The message I think overall, Lance, is -- but despite there's lots of messages in the media, I mean, we just don't see it in our performance. We see healthy volumes, volume growing across all of 4 of our businesses. And we just -- we just don't see the slowdown in the small business sector.

Now could it happen if inflation and interest rates keep going perhaps, but I think the important point today is we just don't see it. We just don't see it in our volume or in our current trajectory.

Operator

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

Charles S. Strauzer *CJS Securities, Inc. - Senior MD of Sales & Research*

Just a little bit more expanding on the top line and the organic growth there. Looking at the drivers behind some of that growth you look at especially on the volume side, how sustainable longer term is that? And more near term, how should we think about top line for Q3 and Q4 separately as we look at the back half of the year?

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

Charlie, so -- we've been talking for some time about aiming the [lock shift] to become a sustained organic revenue growth company. And now 5 consecutive quarters and on our way to delivering the second consecutive year of organic sale -- what we call sales-driven revenue growth. We think that is a sustainable story for this company for the future.

Very specifically in each of the businesses, there's different drivers for the volume, but the common theme across all of them is that the One Deluxe model works, meaning that we can sell more product and service to existing customers while onboarding new customers.

You see the great wins we've had in check. You see it in promo. You see it in our cloud business, and you'll certainly see it in our payments business. So I'd tell you, it's pretty broad-based across all of the segments, and it's just, we think real evidence and proof that the model works and that we have changed the trajectory of the company to be a sales-driven revenue growth company going forward.

Charles S. Strauzer *CJS Securities, Inc. - Senior MD of Sales & Research*

That's helpful. And Scott, I apologize if you've given this out before, but did you give us any updated thoughts on interest expense for the back half of the year.

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

Yes. So we're now guiding interest expense of \$95 million for the year. The original guide is \$85 million, and so that includes the impact from obviously, all the rate hikes that we see happening in our forecasted for the balance of the year. As a reminder, about 60% of our existing outstanding debt is variable rate debt. And so that's the driver of the \$10 million increase for the year.

Charles S. Strauzer *CJS Securities, Inc. - Senior MD of Sales & Research*

Great. And then just lastly for me, I'll get back in queue, just kind of level of thoughts on cash flow for the back half of this year.

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

Yes. So Q2 represents the low point in cash flow for the year for us for a number of reasons, many of which are timing related. We also saw a drag on free cash flow for the quarter based on working capital as we had such strong revenue growth in the quarter.

So we do expect to see free cash flow pick up meaningfully in the back half of the year, particularly in Q3. We have a strong cash flow quarter as there's a few timing-related things, we don't have a bond team as an example in Q3, so we do expect cash flow to pick up meaningfully, both in Q3 and Q4.

Operator

Your next question comes from Marla Backer with Sidoti.

Marla Susan Backer *Sidoti & Company, LLC - Research Analyst*

So what in the current economic environment or rather with economic uncertainty with the interest rates, inflation, what kind of implications do you think that has for M&A that might be applicable to you?

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

Marla. We have been pretty clear that we were driving the company to be a sales-driven revenue growth company. And as I said a minute ago, we feel like we have accomplished that. We've also said that we would look to supplement our portfolio with strategic acquisitions, which you saw us do with First America.

And we have, I think, very -- been very disciplined in the time that we've been together as a team leading the transformation and not making multiple transactions, and we don't intend to make multiple transactions.

Specifically, as the next transaction we might consider would be something that would help us extend or bring more volume -- specifically, bring more volume to businesses we're already in, or second add capability or features functionality we don't have today. And we will be opportunistic about that, and we will make decisions that are for the best interest of shareholders that meet our internal rates of return and et cetera.

And obviously, interest rate -- higher interest rates make those hurdle rates more difficult to achieve. So we will be opportunistic to keep rise on the horizon for a smart opportunities going forward. And meanwhile, we're very focused on debt repayment and reducing our leverage ratio, which we think is more than manageable today, but it will continue to drive that down. We know that will help drive shareholder value as well.

Marla Susan Backer *Sidoti & Company, LLC - Research Analyst*

Okay. And are you seeing growing awareness of potentially adoption of banking as a service. And if you are, how do you think it might impact your opportunity?

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

So we're very bullish on the notion of banking as a service. And we know there are multiple parties that are playing in that space, we think it's probably a little bit further on the horizon than maybe some of what we're reading about on the media. But ultimately, we think that is a good pathway for us because especially in our payments business, we have relationships with millions of small businesses, 100 -- over 150,000 were actually running their credit card processing today.

And we think that puts us in a particularly good strategic position over time, to leverage that as those small to midsize businesses are really looking for alternatives and more integrated financial services, and I think we can be a player there over the intermediate term.

Operator

Your next question comes from David Silver with CL King.

David Cyrus Silver *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

I had kind of a big picture question. I think you've kind of touched on different aspects of it. But I was just wondering, from your perspective, this question would be kind of more of a pre-pandemic or pandemic versus post pandemic period. But in terms of the way you operate your business and go to market and whatnot, I mean, how are you looking at the landscape here now post pandemic, let's call it versus how you had to adjust and adapt kind of on the fly over the past, let's say, couple of years.

In other words, is it harder to reach your target customer? Are they more spread out or disparate and tougher to locate the decision makers, have you had to kind of shift your models around? So how are you operating your business now differently, let's say, versus maybe a year or so ago?

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

Sure. David, what I would start with is the importance and the durability of our One Deluxe model. And the One Deluxe model is focused on bringing the very best of the (inaudible) to our customers. So rather than trying to sell one product at a time, instead we go and understand the customers' needs and then put together a bundle of solutions that help that customer solve their problems.

During COVID, some of the demands were different than they are in a post-COVID, higher inflation environment. And so we simply adjust the bundle of the mix of products that we help -- that we offer to a customer to solve their problems. So that's number one. So the bundle of offerings changes as a result of market changes, of course.

But the bigger thing is that we're actually able to now be in person and see our customers face-to-face. Whereas obviously, during the COVID period, we had to grow the company and deliver the One Deluxe model remotely. And we're seeing great success and response from that.

We had -- earlier in the year, we had our Deluxe Exchange, which we hadn't been able to do for a couple of years. We had it in person, and we had many hundreds of our customers come and join and participate. And we're visiting and meeting with our customers in their offices and go into their facilities and more deeply able to engage in their problems so that we can help them solve their problems.

But the notion and the basic model of how we're growing the company around One Deluxe, bringing the best of the company to every customer is foundational, and it's shown its durability through COVID and now through an inflationary period of time.

David Cyrus Silver *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. Great. And then I had another question maybe just about the cost inflation that you're dealing with, and in particular, how durable or how variable certain aspects of that are going to be.

So if you look out a year or 2, I'm thinking and these are my words, not yours. But to the extent that wages have to move up to compensate the workers you need, I mean, that might be a more sticky or durable element of your cost base. But I do wonder if office expenses and electricity and travel and things like that may also moderate going forward from where they are right now.

But as you look at tackling the company cost base, let's say, over a 1- or 2-year period, what are the elements where you think you have some opportunity to kind of drive the cost base a little bit lower and reduce the impacts of the inflation that you're currently dealing with?

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

David, I'll start at the very highest level, and I'll let Scott kind of (inaudible) for you. But at the highest level, we think we are able to continue to take price increases, proportionate to what's happening in the marketplace. And as you know, we've discussed before, there's a lag between the time we announce a price increase, and we actually can implement it, some limitations we have in our agreements. But we think we'll be able to continue to do that over time, which we think will provide us some profit protection over time. But of course, obviously, we're looking at the cost side as well. And Scott, do you want to sort of double-click on that?

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

Yes. Something that's really core to Deluxe's DNA is continuing to focus on driving efficiency. And we're certainly watching the inflationary impacts to see if there's specific client items and where our focus areas should shift over time to mitigate inflationary pressures that we've seen, but we have an entire organization built around lean principles and how we simply get better and do value reengineering up and down our supply chain on a continuous basis.

We have a heavy force focused on sourcing and procurement to make sure that we have -- we're buying at world-class pricing. And so it is something that we live every day is trying to figure out how to get more productive. And that's independent of the inflationary environment. That's just how we operate.

But certainly, it's created some interesting opportunities. And to your point, there's elements of inflationary impacts that are more durable than others. But we're certainly looking to manage that portfolio and look for ways to drive productivity. It's not always in the same line item. And so we may see pressure in a particular portion of the business, so we have to solve it somewhere else, that's something we're keenly focused on.

David Cyrus Silver *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. And then just one more. But I personally, I always view -- or I tend to view the discretionary element of your CapEx budget as kind of a good sign, good road map for where the more immediate priorities are. So if you could just discuss in that \$100 million-or-so budget -- capital spending budget for this year. Can you remind me what the sustaining level of that is? And then if you could just highlight the 1 or 2 biggest items in the discretionary portion of that spend?

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

Sure. So we don't break it out in a high level of detail, but we -- more than half of our capital spend is what we would consider growth capital, and this is capital spend against driving our position in the marketplace. Much of that is concentrated in our payments and data businesses where we have a major technical replatforming of some of our data capabilities, continuing to build out our software offerings within the payment space.

And then the third big capital project that we're deploying both this year and into next year is the investment in our printing technology to modernize the manufacturing process for our check production. And so those are sort of the 3 big buckets. It's investment in the Check printing capabilities. It's continuing to push our payments, software services forward and its investment in our data business.

Operator

Your next question comes from Lance Vitanza with Cowen.

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

Thanks for letting me jump back in here. I did also want to ask you about corporate overhead, which I noticed was down sequentially. And I'm wondering if that reduction was sort of seasonal? Or was there something that had made the 1Q number higher than it normally would have been? And really just thinking about how we should think about the second half of the year directionally on the corporate overhead line? Any color there would be helpful.

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

Sure, Lance. There is some seasonality from Q1 into Q2 that explains part of that. So maybe let's have the conversation and talk about it year-over-year from a Q2 perspective. Corporate was up a few million dollars. That is entirely explained by the reintroduction of some benefits that have been -- employee benefits that have been paused during COVID. If you exclude that one timer, which will conclude at the end of this year and be in their baseline, corporate overhead year-over-year was flat, we should think about that in this inflationary environment, I think that tells you how much cost that we've taken out of it, the corporate line.

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It is a heavy area of focus for us to drive efficiency there. And in fact, with the strong revenue growth, corporate as a percent of sales was down 70 basis points year-over-year. So to the earlier questions around driving productivity, corporate is something that we're always focused on and continuing to get more efficient there.

Operator

At this time, I will turn the call back to Tom Morabito for any closing remarks.

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

Thanks, Erica. Before we conclude, I'd like to mention that management will be participating in the following conferences. Susquehanna Financials 2022 Get Carded, a Payments and FinTech Conference tomorrow, August 5; Wells Fargo Seventh Annual FinTech and Technology Services Forum on August 9 and CL King's Best Ideas Conference 2022 on September 12.

Thank you again for joining us today, and we look forward to speaking with you in November as we share our third quarter 2022 results.

Operator

Thank you for participating. You may disconnect at this time.

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