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Q1 2023 Deluxe Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe First Quarter 2023 Earnings Conference Call. (Operator Instructions) 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 First Quarter 2023 Earnings Call. Joining me on today's call is Barry McCarthy, our President and Chief Executive Officer; and Chip Zint, our Chief Financial Officer. At the end of today's prepared remarks, we will take questions.

Before we begin, and as you see 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.

Additional information about factors that may cause our actual results to differ from projection is set forth in the press release we furnished today and our Form 10-K for the year ended December 31, 2022, and in other company SEC filings.

On the call today, we will discuss non-GAAP financial measures, including comparable adjusted revenue, adjusted and comparable adjusted EBITDA, adjusted and comparable 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.

Also in the 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 is off to a solid start to 2023 with positive comparable adjusted revenue and EBITDA growth. You'll recall that last quarter, we began discussing both revenue and EBITDA on a comparable adjusted basis, which will exclude the inconsistencies caused by acquisitions or divestitures in the prior period.

We're now in our third consecutive year of revenue growth on a comparable adjusted basis and we're delivering on our long-term promise of scale, growing profits faster than revenue. This has been an elusive goal for more than a decade. While there's still more to do, we're cautiously optimistic that this quarter represents our inflection point of improving margin and earnings leverage over time.

Before we review the quarterly results, let me take a moment to offer a few business updates. First, in Q1, we completed our 3-year corporate infrastructure modernization program with the implementation of our ERP, clearly showing our ability to execute well on what is always a difficult project. Chip will provide additional details in a moment.

Second, I want to offer some details on First American as we approach the second anniversary of the acquisition. First American, our merchant services platform business continues to meet or exceed our management case for the transaction.

Pre-acquisition, the business was growing lower single digits and is now solidly a mid-single-digit grower, delivering 7% revenue growth this quarter. The progress we made on this acquisition highlights the operational and financial discipline and the power of our One Deluxe go-to-market model.

As an example, since the acquisition, we've onboarded nearly 1,100 new clients that were Deluxe relationships or referrals. We continue to see First American as an important value driver for Deluxe. Third, at the sale of our North American web hosting and logo business is expected to be completed this month after satisfying all closing conditions.

As I mentioned on our last call, web hosting is a nonstrategic business line, and this divestiture will allow us to further focus on payments and data. Post divestiture, 90% of our data business formerly known as the cloud business will be data-driven marketing or DDM. Fourth, we made significant strides in our ongoing lockbox improvement efforts by further consolidating sites and shifting work to optimize the operations. Chip will share additional details.

Fisc, as announced earlier this week, Deluxe entered into a joint venture with Eco Health, focused on expanding the capabilities of our Deluxe Payment Exchange, or DPX platform. We expect DPX will positively impact the payments business in future periods, and we'll share more on future calls.

Finally, Deluxe has once again been recognized as one of America's most trustworthy companies by Newsweek. This speaks to the quality of our products and services, reliability and talent, and it underscores the mission-critical and trusted role we play for our clients. All of these accomplishments and many more would not have been possible without the hard work and dedication of my fellow Deluxers. So let me again say, thank you.

Now on to the results. For the quarter, on a reported basis, revenue decreased 1.9% to $545 million, which was impacted by several business exit throughout 2022. On a comparable adjusted basis, revenue was up 0.5% year-over-year. Total adjusted EBITDA dollars increased nearly 1% for the first quarter of 2022.

Total comparable adjusted EBITDA dollars increased 2.1% as we continue to benefit from ongoing pricing actions and management of our cost structure. We continue to be focused on driving quality revenue growth with increasing adjusted EBITDA and free cash flow for the long term.

We expect to see improvements in these metrics as we progress through 2023, just as we have messaged for some time. For the year, we're looking for modest increases in comparable adjusted revenue and EBITDA with free cash flow between $80 million and $100 million.

Importantly, I wanted to mention that we have not seen any associated weakness across our lines of business as a result of the recent banking industry challenges. We are not banked by any of the directly affected institutions and then collectively represent an immaterial portion of revenue.

Perhaps more importantly, as a result of these challenges, we won additional business from several institutions that were competing to win deposits away from the affected institutions.

Moving on to some segment revenue highlights. Payments revenue grew 3.5% from the first quarter of 2022. Commercial Services had a strong quarter with revenue increasing 7%, at the high end of our long-term expectations of mid-single-digit growth. The rest of Payments, which includes our receivables and payables businesses, was roughly flat as solid performance and treasury management was partially offset by volume and cost pressures in other areas of the business temporarily impacted by our site consolidation efforts and ERP project.

The Data segment's comparable adjusted revenue declined 7.7% in the first quarter. You will recall that several key DDM customers pulled forward spending into Q4 2022. This pull forward, along with an unusually strong Q1 2022 comp impacted the performance of this business.

On a blended Q4 and Q1 basis, the DDM business grew 6.6% in this 6-month period, consistent with long-term expectations. Last quarter, we highlighted some DDM related traction we saw in nonfinancial verticals.

Today, I'd like to highlight our continued efforts to expand into regional financial institutions. For example, IBC Bank, one of the largest Texas regional banks at a Deluxe Check customer for over 25 years, recently expanded their relationship with Deluxe to include our DDM solutions. We helped IBC introduce an innovative digital outreach solution to expand 1 of its business lines.

Another win is Pentagon Federal Credit Union, based in the claim Virginia,] had a Fed manages approximately $25 billion in assets for more than 2 million members. A longtime Check customer, we also helped PenFed significantly increased credit line and mortgage applications.

Turning to Promo. We had another strong quarter, improving comparable adjusted revenue 8.1%. We were also pleased with the improvement in margins. The Promo business continues to benefit from our strong and growing relationship with Amazon. Amazon is using our recently improved Deluxe Brand Center or DBC, which is an ordering platform enabling businesses like Amazon to customize promotional items.

We believe having an anchor customer like Amazon on the platform is a testament to our capabilities on the potential to provide this service to many more customers. Finally, our check business declined 4.5% year-over-year, consistent with our long-term expectations of mid-single-digit revenue declines. The ERP implementation did have a onetime impact on profitability, which Chip will discuss.

Before concluding, I do want to briefly discuss our capital allocation process. Our strategy is focused on growing our Payments and data businesses by reinvesting the harvested cash from the print businesses.

We have a very disciplined process to improve growth investments, and we are encouraged by our progress. Payments and data are well positioned in strong secular growth markets. Payments will become our largest revenue business this year, and we expect both payments and data to deliver positive shareholder returns. While we still have a lot of work to do, we're pleased with our first quarter results, generating positive comparable adjusted revenue growth and modest to positive operating leverage.

We believe this is an important milestone for the company and that this margin leverage should be durable over time. We're also pleased to have now completed our infrastructure modernization efforts and look forward to further unlocking benefits from these investments. Now I'll turn it over to Chip, who will provide more details on our financial performance, capital allocation priorities and guidance.

William Zint *Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance*

Thank you, Barry, and good morning, everyone. Let's first go through the consolidated highlights for the quarter. On a reported basis, revenue declined 1.9% year-over-year, while total comparable adjusted revenue was relatively flat, increasing 0.5% to $545 million.

We reported first quarter GAAP net income of $2.8 million or $0.06 per diluted share, down from $9.6 million or $0.22 per share in the first quarter of 2022. Adjusted EBITDA came in at $100 million, up 0.8% and up 2.1% on a comparable adjusted basis from last year.

Improvements in promo were partially offset by checks and data, which was impacted by the 2022 business exits. In addition, we had changes to our benefits plan that help smooth some corporate benefits costs out better across the quarters.

Comparable adjusted EBITDA margins were 18.4%, up 30 basis points year-over-year. First quarter adjusted diluted EPS came in at

$0.80, down from $1.05 in last year's first quarter. This decrease was primarily driven by interest expense and depreciation and amortization.

In the first quarter, we also completed a $200 million interest rate swap, which replaced the existing 2019 swap that expired on March 20, 2023. We also modified our existing credit facility and interest rate swaps to utilize SOFR as the term reference rate in these agreements.

With this replacement swap, our debt remains approximately 60% fixed rate, which should partially insulate the company from future rate hikes. Our guidance assumes a may rate increase with SOFR reaching a high of roughly 5% and no rate reductions in 2023.

Before going through the segments, I'd like to provide some additional details on our ERP implementation. As the system went live, we experienced some challenges that did have an impact on revenue and profit. Notably, backlog is built up mostly in February, but improvements occurred throughout March. We are now operating largely as usual and have satisfied the backlog of orders created by the transition.

The Checks segment's profitability was particularly impacted, which I will detail in a moment, but overall company profitability was impacted by roughly 80 basis points. Despite these near-term issues, the long-term benefits of ERP implementation remains. Examples include savings related to legacy IT system costs, third-party supplier spend and improvements in working capital and supply chain.

We also expect to have several million dollars of future value to be saved through operating on a more streamlined end-to-end ecosystem. Finally, the reduction of numerous legacy ERP systems will reduce the risk inherent in operating unsupported and nonstandard systems in our acquired businesses and within our legacy Check and Promo businesses.

This was a massive undertaking, and we are very pleased that has been materially completed. This will also effectively mark the end of increases in operating expenses to modernize the antiquated infrastructure, and now we continue to focus on driving the benefit.

Now turning to our segment details, starting with our growth businesses, Payments and Data. Payments grew first quarter revenue 3.5% year-over-year to $172 million, with Merchant Services growing 7%. As we have previously indicated, we anticipate slower growth for a few quarters as all of Payments was up against tough year-over-year comps. We still expect growth rates to improve as the year progresses.

Strength in Merchant Services from government and nonprofit areas was partially offset by modest softness in consumer spending patterns. While the merchant business is subject to overall market conditions, we remain confident that we have many levers across our Payments portfolio to still deliver our guidance for the year.

Payments adjusted EBITDA margins were 21.2%, down 70 basis points from the prior year, mostly driven by volume and cost pressures related to our lockbox consolidation efforts. We closed 2 lockbox sites this quarter with a third expected to be completed this month. These changes will further improve operating performance, and we expect between 100 and 200 basis points of margin expansion in subsequent quarters.

For 2023, we continue to expect to see mid-single-digit revenue growth and adjusted EBITDA margins in the low to mid-20% range. The data results were down year-over-year and a little softer than we expected due to having to rebuild the pipeline from the strong fourth quarter. On a reported basis, Data's revenue declined 15.7% from the first quarter of 2022 to $59 million. Comparable adjusted revenue decreased 7.7% year-over-year, adjusting for the $6 million of divested revenue related to last year's Australian web hosting divestiture.

As Barry mentioned, Data was up against some tough comps and experienced the impact of the campaign shifts into the fourth quarter, and the results still include the web hosting business, which declined 11.8% this quarter. If you combine the performance of the 2 quarters, DDM increased a strong 6.6%.

Taking these factors into account, we expect to see a solid rebound in revenue growth in the second quarter. Data's adjusted EBITDA margin in the quarter increased 120 basis points year-over-year to 26.1%, largely due to product mix and disciplined expense management. On a comparable adjusted basis, EBITDA margins improved 60 basis points. For 2023, we continue to expect to see low single-digit revenue growth on a comparable adjusted basis. We also expect to see comparable adjusted EBITDA margins in the low 20% range.

Turning now to our Print businesses, Promo and Checks. Promo's first quarter revenue was $136 million up 2.2% on a reported basis. Comparable adjusted revenue increased 8.1%, driven by new sales wins and pricing actions and adjusting for $7 million of divested revenue from last year's many business exits. Promo's adjusted EBITDA margins increased 100 basis points year-over-year to 13.8% as we benefited from continued pricing actions and improvements in operations and cost structure.

On a comparable adjusted basis, EBITDA margins improved 50 basis points from the first quarter of 2022. For 2023, we continue to expect to see low single-digit comparable adjusted revenue growth and adjusted EBITDA margins in the mid-teens.

Check's first quarter revenue decreased 4.5% from last year to $179 million as the business continues to return to expected secular declines. Demand remains predictable, and we continue to take responsible price actions and maintain high retention rates.

First quarter adjusted EBITDA margins were 42.8%, down 150 basis points year-over-year due to the ERP-related challenges I mentioned, mostly occurring in February, we did not see a significant decline in volumes, but we did see an impact on some higher profit specialty and expedited orders.

Over the past 6 weeks, the system has been operating as expected and bookings remain on trend. For 2023, we continue to expect mid-single-digit revenue declines and adjusted EBITDA margins in the mid-40% range.

Turning now to our balance sheet and cash flow. We ended the quarter with a net debt level of $1.66 billion, flat compared to the first quarter of 2022. Our net debt to adjusted EBITDA ratio was 4x at the end of the quarter, unchanged from a year ago. Clearly, our rate of debt paydown and reduction in leverage ratio will not be a perfectly linear line. The impact of the first quarter do not change any of our projections, and we remain on track for our goals for the year. Our long-term strategic target remains approximately 3x. Free cash flow, defined as cash provided by operating activities less capital expenditures was expected to be negative in the first quarter, just as we outlined on the last call. However, free cash flow of negative $32 million was somewhat less than anticipated impacted by temporary changes in working capital related to the ERP implementation. This compares to a positive $13.5 million in the first quarter of 2022, and the decrease was primarily driven by the expected increases in CapEx, taxes and interest. Once again, the negative free cash flow was anticipated, and we've already seen a recovery early in the second quarter, which gives us confidence free cash flow can remain on track for the year.

Our Board approved a regular quarterly dividend of $0.30 per share on all outstanding shares. The dividend will be payable on June 5, 2023, to all shareholders of record as of market closing on May 22, 2023. To build on Barry's comments around capital allocation, we are responsibly investing the significant free cash flow generated by our core Checks business into Payments and Data businesses that we believe can generate more robust growth over time.

Our current process is disciplined and our priorities for capital allocation are clear: reducing our debt and net leverage, delivering high-return internal investments and paying our dividend. We facilitate a rigorous annual planning process, ensuring all investments have a compelling business case and target returns above a 15% hurdle rate.

We returned value to shareholders through our dividend, which is currently $0.30 per share per quarter and equates to a very attractive roughly 8% yield. We continue to review the Data with our Board, and our current focus is to grow out of that high yield through improving business performance.

Finally, we remain focused on accelerating our rate of debt paydown through even more improved EBITDA and free cash flow growth that we can get back below 3x levered. We plan to share more details on upcoming calls. Turning now to guidance. Today, we are affirming our expectations for 2023, keeping in mind all figures are approximate and reflect the expected impact of the web hosting and logo divestiture, which are now expected to close this month.

We continue to expect revenue of $2.145 billion to $2.21 billion, adjusted EBITDA of $390 million to $405 million, adjusted EPS of $2.90 to $3.25 and free cash flow of $80 million to $100 million.

As we mentioned on our previous call, on a comparable adjusted basis, 2023 revenue represents a range of negative 1% to positive 2% growth. The comparable adjusted EBITDA range represents negative 2% to positive 2% growth. Adjusted EPS is expected to decline year-over-year due to the full year impact of rising interest rates incremental depreciation amortization and an estimated now $0.20 impact from the announced divestiture.

However, after factoring the impact of the divestiture, the free cash flow guide remains an increase year-over-year on a comparable adjusted basis. Also, in order to assist with your modeling, our guidance continues to assume the following: interest expense of $120 million to $125 million and adjusted tax rate of 26% and depreciation and amortization of $170 million, of which acquisition amortization is approximately $75 million, an average outstanding share count of 43.7 million shares and capital expenditures of approximately $100 million.

Among other things, this guidance is subject to prevailing macroeconomic conditions, including interest rates, labor supply issues, inflation and the impact of other divestitures.

To summarize, while we have additional work to do, we are encouraged with our first quarter results and believe we are off to a solid start to 2023. Our ERP implementation is now live, and we expect to see significant benefits going forward. As we move through 2023, in addition to continued revenue growth, we are also expecting increased operational efficiencies, which should help us grow EBITDA, improve free cash flow, pay down debt and lower our leverage ratio.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Lance Vitanza with TD Cowen.

Lance William Vitanza ***TD Cowen, Research Division - MD & Cross-Capital Structure Analyst***

Barry, could we start actually with the Echo Health JV. I'm just wondering if you could talk a little bit more about the motivation to set up the JV. Was that more about accelerating volumes and thus revenue growth? Or is it more about improving the cost structure in that line of business?

In any case, could you just talk about how you expect the partnership to help Deluxe and whether this is a one-off or potentially a blueprint for additional ventures in the future, whether with other partners or perhaps in other verticals?

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

Sure. So first of all, you'll recall that we have continued to make progress in the area of digital payables or the outbound side of payments, digitizing what are often paper-based payments.

We've had great success with a product that we have internally called DPX as well as something we created I guess, about 2 years ago called MPX or the Medical Payment Exchange that really helped solve for medical payments, outbound payments, streamlining that and making it a much more digital process.

We saw an opportunity to deliver that same type of solution for the middle market that is very large and underserved today with digital payout mechanisms, and we have some of the assets that are required to succeed there and the partner echo as other assets.

And so we saw by bringing our assets together and going to market with the collection of these assets, we had a real opportunity to take a meaningful share of the payables market for in the middle of the payables business in the middle market. And that was the motivation. We think it's a very attractive way for us to do this, that limits our CapEx investment but allows us to have that additional feature functionality and get to market quicker and take a bigger piece of the pie faster.

Lance William Vitanza ***TD Cowen, Research Division - MD & Cross-Capital Structure Analyst***

And so great. And so in terms of the structure, is this going to be consolidated on your financial statements? Or is this sort of an income from an equity stake that we need to be thinking about?

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

Lance, it's Chip. So there's actually various streams to think about here. So there's 3 streams of revenue. The first is we will be a distributor of the platform towards the joint venture. So we'll continue to have distribution revenue as we go find clients and drive them to the sales force.

We'll be a servicer of the platform, leveraging our technology, selling that into the joint venture and getting a revenue stream from the servicing side. And then we will have the equity method investment side, the third stream, where we will share in our percentage ownership of the net income of the joint venture and record that as an equity method investment inside our consolidated financials.

Lance William Vitanza ***TD Cowen, Research Division - MD & Cross-Capital Structure Analyst***

Great. Okay. Let me turn to the corporate expense line, which did much better than we had at least expected. It was down about 13% year-on-year and it was about 8.5% of revenues. I guess that latter stat at 8.5% of revenues, is that how we should model corporate expense going forward over the balance of the year? Or any additional color or thoughts there?

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

Yes. So first of all, Lance, I would say it's been a while since I think we've had a quarter where we have to talk about corporate improving year-over-year. So fantastic to be in that place, the journey we've been on restructure upgrades and modernization having to deal with various headwinds, reinstating benefits from COVID. So it's nice to be where we are here now to start to kind of eat into it.

The 1 comment I made on the call, it is important to understand we made a minor change in sort of our benefits plan that will help smooth out some of the timing of corporate. As you know, we've been a little front-end loaded in Q1 and lower in Q4 over the past history of our business and that had to do with certain benefits timing.

So there was about $3 million that we've now shifted kind of from Q4 into Q1 that will help smooth things out. Still despite that though, we were overall down $7 million. So there's $4 million worth of cost improvements that we were able to manage that we feel good about.

I would continue to assume somewhere around roughly 9% now, percentage of revenue for now as we continue to get to the year, continue to execute on our plans to take cost out there and get more efficient. But roughly 9%, 8.5% to 9% is a good spot to be from your modeling.

Lance William Vitanza ***TD Cowen, Research Division - MD & Cross-Capital Structure Analyst***

Okay. And then last 1 for me, just on the free cash flow. That came in a bit -- well, actually a well below our expectation. And unfortunately, I can't really see where we were off because the delta seems to be all lumped into the other line in your cash flow statement, at least in the press release.

So 1 year ago, other cash outflows were $9 million this year. Other cash outflows were $46 million. Can you unpack that for us? And then just for the full year, should we be thinking -- I know you reiterated the guide, but should we be thinking more about the low end given the slow start to the year? Or were there timing items there that you think could reverse in subsequent quarters?

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

Yes. So we continue to maintain our guide. We mentioned on the last call, we expect to be negative. We, of course, didn't go as far to exactly tell you the number, but I can tell you now our internal plan was negative $25 million in the first quarter. So the negative $32 million, as I said, was slightly worse than we thought, and it really was tied up in working capital. So we mentioned the ERP. Once again, we're just -- we're so glad we've gotten through that. The team did a fantastic job. It was a difficult project. But like any of those things that has its bumps, it has its delays.

And so working capital was not immune from that, specifically some AR collections and a little bit of inventory. So really, that $7 million difference in working capital bridge is made from the $32 million we delivered to the $25 million we had in our plan. Now the good news is we've already had significant customer collection activity here in April that's even higher than that $7 million miss. So as I sit here today, without perfect visibility. I actually think I'm ahead of plan on a year-to-date basis, which continues to give me confidence that Q2 can be a good quarter, a solid rebound, and there's nothing to worry about in terms of moving up or down in the range.

Our range remains solid. We feel confident with the year. To perfectly be able to give you a reconciliation of others, I don't think I can do real time here on the call. So let us follow back up with you off-line, and we'll see what we can do. But we know the big drivers year-over-year were what we called out on the last call and that we expected higher interest costs, many, many rate hikes as we've all seen since a year ago. So we knew interest would be higher, when new taxes would be higher.

We knew CapEx would be a bit higher as we continue to reinvest in the growth products. And so those things all played out the way we knew they would. And for me, it's all about working capital and getting more efficient and improving our execution there.

Operator

And we will take our next question from Charles Strauzer with CJS.

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

Barry, I'd love to hear various thoughts, if you could, about the banking turmoil and possibility that you could turn this into a positive potential share gains there as customers are shifting banks, chase buying, pressure publics, things like that. Are there potentials for positives there to, I guess, build customers and take share there?

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

So Charlie, I mean, at the highest level, we are, of course, we serve the banking sector as 1 of our distribution channels. But so far, we have not seen any impact from the banking challenges. And very specifically, I want to reiterate what we said in the opening comments, we don't have any significant banking relationships with any of the institutions, even those that you see in headlines this morning that are banking us or where we have any material revenue exposure.

But as far as opportunity, every time there are banking consolidations, it turns into, on average, a net positive for us. We are a net winner when there are bank consolidations. And whether that's in our checking business and our data businesses or otherwise, we tend to be a net winner when there's consolidation.

But we did see something that we thought was very encouraging actually in the first quarter in our data business as some of our customers were looking to accelerate their ability to go attract deposits from affected institutions and turn into additional revenue for us and helping those institutions quickly go to market with short-term campaigns to draw deposits. And so while there is definitely concern and some change happening in the sector, we think in the end analysis is a net positive for us, and we have not seen any impact to our volumes or what we see on the horizon.

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

That's helpful. And just shifting gears a little bit to the balance sheet. Barry, when the Board had discussions about capital allocation and things like that. Has there been more discussions at the Board level to maybe more -- do some more things more aggressively to help pay down -- [debt] down a little bit more quickly?

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

First of all, we are very focused on improving the balance sheet overall and that One of the biggest things we knew we needed to do is get this ERP implementation complete, which we've done because it gives us opportunities now that we did not have before to streamline the operations of the company.

And I think over coming quarters, you will see us focus there and talk about things that we're trying to do to make improvements. And of course, the Board is very engaged with us on capital allocation decisions to make sure that we are getting great shareholder returns for what we do completely understand this very precious shareholder capital and we feel like we have been good stewards of that. And I think that especially now that we've got some of these infrastructure things behind us, we have opportunity for some additional improvements.

Operator

And we will take our final question from Marc Riddick with Sidoti.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

So I was wondering if we could start in the prepared remarks, there was commentary around the pricing environment and retention rates. I was wondering if you could talk a little bit more about that and maybe some of those controls and then we can shift over to a few ERP questions.

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

So let me start with the macro and then Chip can come in and give you a little more specificity. But at a macro level, we've been very pleased about our ability to take price increases at a hold volume. We think that is a really important message about the durability of demand for our solutions.

I think it's very important to note that the durability of demand for our solutions continues. So across our entire portfolio, we're seeing solid and sustainable demand for the solutions even as we take price.

So we think this continues to be room for us to continue on the price journey. Inflation is not over. Our customers understand that. And while they may not like the fact that we're going to talk to them with a much greater frequency now on pricing actions than we have in anyone's memory. I think they understand and have accepted that reality and that is going to help us going forward. Do you want to talk anything more about specifics?

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

Yes, Marc, I mean, in the prepared remarks, I used the term responsibly taking price. And I think that's the way we've gone about it in the last quarters. we aren't simply using this as an opportunity to just gauge prices and make profits. We're really looking at our input costs, our contractual requirements to our customers and doing it in partnership and being very responsible about it. We've built up new muscle over the last year. I think we're very thoughtful about how we go about it, the rhythm we take price, the inputs we're using to do the analysis of what that price should be.

And we just continue to keep it front and center and look at inflation. Obviously, inflation is slowing down a bit, not where we want it yet, but it is coming down. So the degree to which we're having to have this conversation internally continue to rethink about pricing, it's getting slower, but we continue to be responsible about it and use that as an opportunity to make sure we stay whole on the bottom line and continue to do what's right by our customers.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

Well, I also want to sort of highlight the 3-year journey and the -- being on the other side of the ERP is always -- it's always good to get to the other side of that journey. So congratulations on that. And I was wondering if you could talk a little bit about sort of -- and you kind of touched on this a little bit, but I would imagine there are some things that you maybe have held off on doing until you got to the other side of that.

And so I was sort of wondering to what degree you could sort of share a little bit about some of maybe the initial efforts or targets that you might have post ERP and then maybe some of the longer-term benefits that we can look forward to.

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

Sure. Thank you for acknowledging that journey. The team worked very hard, and we're very pleased to be here. As you could imagine, and gone through it for a long period of time. Right now, near term, we're focused on stabilizing the operations, fixing the bugs or the issues that we know we come out about and that have kind of manual processes around them and getting them reautomated.

So near term, it's going to be very low cost. We call it kind of hyper care, hyper focused, just get what we have going, working perfectly and get it smoothly. We'll start to transition to more of a traditional regular cadence that you would see anyone do will always be slowly investing in the platform. We're not going to underinvest in or leave it on the shelf. So we'll continue to improve the functionality I think near term, what we'll look to do is improve our consolidation process, which will give us faster visibility on our close, faster analytics and really think about how we drive business performance.

But really, to me, it's a little bit off a start to use what we put in place as we went through the quarter and we dealt with the bumps that everyone deals with, the amazing opportunity we got was to leverage the new system right away stand up a daily cadence to really manage the output of the plant, the fulfillment process, look at things like AR, billing, inventory, get very insightful on what the business is going on.

And it was a big part of how we improved the operations from February into March. We had to get stable. We had to get right for our customers. That's not an area of opportunity for us to keep doing daily going forward and help improve working capital, get very efficient on how we run the business. So to me, I think it's just business as usual, continue to expect us to do right by the system, make it more feature full feature and better for our needs, but we're going to really just run the business now and get the benefits and efficiencies out of it now.

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

The only thing I would add on that is it does allow us to further streamline the actual operating infrastructure of the company. So that over time, we will be able to put more reliance on the new ERP and step away from other systems. And we don't do that in 1 quarter, but it does give us the opportunity of that absolute spend over time as well.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

Okay. Excellent. And then I know you had mentioned that -- and I appreciate the commentary around the banking challenges that we see in the headlines every day and sort of and your exposure -- lack there of exposure there.

So I want to talk a little bit about maybe from a longer-term perspective, you talked about winning some opportunities from that. I was wondering if you're getting a sense of the types of opportunities are those -- do those tend to be sort of cost savings generating in nature from those clients? Are you getting the sense of this is sort of just sort of a little bit of an emergency kind of emerging type of moves that they're going through that able to benefit from as a trusted provider.

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

In aggregate, when there is industry consolidation we're net winners on multiple levels, and that's from revenue, which, of course, has profit dollars associated with it. And we think that it happened in the past, we expect that to continue going forward.

William Zint ***Deluxe Corporation - CFO, Senior VP & VP of Corporate Finance***

I think, Mark, I think the important thing and it's a bit overblown our attachment to what's going on because what we have to always remind ourselves is the banks, the financial institutions, they're partner, they have vehicle to get to the customer, the end user, but that end user is still bad, right?

So we kind of look at it as where the customer banks may shuffle around. It may move into a portfolio of ours where we have a relationship that may move out of it. We get the opportunity to leverage our data analytics side to go help target marketing and help kind of move the customers to the journey.

But for us, it's a little bit of -- we just keep operating business as usual, and it's not really a material impact at all. But we were -- as Barry said, we know, on average, it's going to play out in our favor, and we just continue to be ready to serve the customers.

Operator

And there are no further questions at this time. I will now turn the call back to Tom Morabito for closing remarks.

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

Thanks, Aby. Before we conclude, I'd like to mention that management will be participating in the 18th Annual Needham Technology and Media Conference on May 18, Colin's 51st Annual TMT Conference on May 31 and the Sidoti Virtual Small Cap Conference on June 15. Thank you again for joining us today, and we look forward to speaking with you in August as we share our second quarter 2023 results.

Operator

And ladies and gentlemen, this concludes today's conference call, and we thank you for your participation. You may now disconnect.