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Q2 2023 Deluxe Corp Earnings Call

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**Charles S. Strauzer** *CJS Securities, Inc. - Senior MD of Sales*  
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**Marc Frye Riddick** *Sidoti & Company, LLC - Business and Consumer Services Analyst*  
**Thomas Ginsburg**

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe Second Quarter 2023 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 Strategy and Investor Relations, Brian Anderson. Please go ahead.

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### Brian Anderson

Thank you, operator, and welcome to the Deluxe Second Quarter 2023 Earnings Call. Joining me on today's call are 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 the current slide, I'd like to remind everyone that comments made today regarding management's intentions, projections, financial estimates or expectations of 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 will cause actual results to differ from projections is set forth in the press release we furnished today in 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, today's 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. Within the materials, we are also providing reconciliations of GAAP EPS to adjusted EPS, which may assist with your modeling.

Now I'll turn it over to Barry.

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

Thanks, Brian, and good morning, everyone. Before we begin, I'd like to introduce Brian Anderson, our new leader of Strategy and Investor Relations. Brian has been with Deluxe for nearly 4 years, serving in a number of important financial, operational and strategic roles. We look forward to leveraging his deep knowledge of Deluxe to further build our IR program.

We're pleased with the second quarter performance overall. We delivered both revenue and adjusted EBITDA dollar growth across all 4 operating segments, and we are in our third consecutive year of organic revenue growth. We're very pleased to raise both full year 2023 revenue and earnings guidance based on these results and our momentum.

As discussed in the first quarter, the company is now positioned to deliver revenue and adjusted EBITDA growth concurrently. Before sharing a few additional recent business highlights, I'd like to start by addressing the broader macroeconomic environment. As a leading

merchant processor, we regularly monitor broad consumer confidence and discretionary spending trends. After a slow start to the quarter, our merchant portfolio performance was roughly in line with card associations and other market reports, noting modestly improving consumer sentiment and discretionary spending volumes as the quarter unfolded.

Importantly, we remain confident that our Merchant business can deliver mid-single-digit revenue growth for the full year, driven by new product features, ongoing pricing actions and a strong pipeline for new accounts and partnerships.

Now I'll on to some brief comments on the overall results. For the second quarter, total reported revenue increased 1.5% to \$572 million. This growth rate was impacted by several exits of nonstrategic businesses throughout 2022.

On a comparable adjusted basis, total revenue increased 2.6%. As I mentioned earlier, we're now on our third consecutive year of revenue growth on a comparable adjusted basis. Profits once again grew faster than revenue in the quarter, and we continue to look for opportunities to drive efficiency and our cost base while profitably investing for growth.

Total adjusted EBITDA margins increased 90 basis points versus the second quarter of 2022. Adjusted EBITDA dollars increased 6.6%, while total comparable adjusted EBITDA dollars increased 7.2% as our operations continue to benefit both from responsible pricing actions and disciplined cost management.

While we don't expect our growth rate from the back half to match the second quarter pace, combining our overall first half performance, trajectory and solid operating plan enable us to lift full year guidance, as I mentioned a moment ago. Chip will discuss in greater detail.

Now for the segment revenue highlights. As a reminder, our Payments segment is structured with 2 distinct sets of attractive offerings. Our Merchant Services business helps small to midsized businesses, except credit card and debit cards. Our treasury management suite of solutions helps enterprises and midsized businesses manage their receivables and payables more efficiently. Overall, Payments revenue grew approximately 2% from the second quarter of 2022, slower than our long-term expectation.

Merchant Services revenue increased just over 1%, mainly due to the early softness in processing volumes within discretionary spending categories, as mentioned earlier. The trends we've seen in our Merchant business are broadly in line with what we've seen from industry-wide data. We expect spending to stabilize, and we remain pleased with our partner development and overall sales pipeline activities.

Treasury management grew 2.5% as improvements in software revenues were partially offset by softness in lockbox volume that we expect to continue for another quarter or two. During the quarter, our sales team signed BankUnited, a Florida-based leading financial institution with over \$37 billion in assets to our Deluxe Payment Exchange Disbursements platform. This solution will help BankUnited drive a strong B2B payments offering to its customer base and drive future growth.

Moving on to our Data segments. We are particularly pleased with our standout performance in the segment. On a comparable adjusted basis, revenue in the Data segment increased a strong 8.4%. The data-driven marketing, or DDM business, posted record revenue and adjusted EBITDA during the quarter. As we've discussed previously, we're working diligently to expand this business beyond its strong FI relationships.

We focused on new and less interest rate sensitive industry verticals. And this quarter, we signed 3 new smart home brands as part of our 20 new logo wins during the quarter. In addition, we saw increased demand for our market services in support of banks, attracting low-cost deposits. Specifically, we delivered a suite of campaigns for a top 10 FI, helping drive aggressive consumer and business deposit gathering. Finally, we closed on the sale of our North American Web hosting business as of June 29. The second quarter Data segment financials are reflective of these results through the closing date as we continue to reshape and simplify our portfolio over time.

Shifting now to our Print businesses, comprised of our promotional solutions and check segments. Combined, the Print business has delivered a blended comparable adjusted revenue growth of 1% and EBITDA margins of 31% from the first half.

Promotional Solutions had another solid quarter, improving comparable adjusted revenue 2.2% along with significantly improved margins, which Chip will discuss in a moment. Finally, our Check business increased 1.4% year-over-year, better than our long-term expectations of mid-single-digit revenue decline. As we discussed on the last call, our first quarter results were impacted by our ERP system upgrade. Our production caught up and we shipped the carryover Q1 order backlog in addition to normal orders, helping to deliver this performance.

For the first half, Check revenue was down 1.6% year-over-year, still better than our long-term expectations. Small business demand remained durable, and we benefited from our previous price actions. We held margins as expected in the mid-40s.

Now on to the organization. We recently made some adjustments to our leadership team, realigning existing leaders from our Merchant and Data businesses into roles reporting directly to me. These moves are fully aligned with our core strategic priorities and will allow for greater focus on the most critical growth platforms for the company.

In summary, we're now confident in our ability to deliver sustainable, positive operating leverage over the long term with some periods stronger than others. We're very pleased our performance is enabling us to raise our full year guidance to reflect our momentum.

Before passing this over to Chip, who will provide more details on our financial performance, capital allocation priorities and guidance, we once again thank my fellow Deluxers for their continued dedication to both our customers and our company's success, enabling the strong second quarter and first half results.

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**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 increased 1.5% year-over-year, while total comparable adjusted revenue increased 2.6% to \$571.7 million. We reported second quarter GAAP net income of \$16.4 million or \$0.37 per diluted share, down from \$22.1 million or \$0.50 per share in the second quarter of 2022.

Adjusted EBITDA came in at \$108.4 million, up 6.6% on a reported basis and up 7.2% on a comparable adjusted basis from last year. Comparable adjusted EBITDA margins were 19%, up 90 basis points year-over-year. Second quarter adjusted diluted EPS came in at \$0.93, down from \$0.99 in last year's second quarter. This decrease was primarily driven by an \$0.18 impact from higher interest expense, partially offset by improved operational performance.

Now turning to our segment details, starting with our growth businesses, Payments and Data. Payments grew second quarter revenue 1.9% year-over-year to \$174.4 million with Merchant Services growing 1.3% and the balance of the Payments business increasing 2.5%. Growth for the Merchant business reflected some softer consumer discretionary spending levels discussed previously. Growth for the balance of the Payments segment, including our receivables and payable solutions, was strong, while our lockbox business experienced some volume softness.

Payments adjusted EBITDA margins were 20.8%, up 40 basis points from the prior year. Operational improvements across our lockbox sites, as we indicated during last quarter's call, drove second quarter margin improvement for the treasury management business, while Merchant Services margins were modestly challenged due to the volume softness noted previously. For 2023, we continue to expect to see mid-single-digit payments revenue growth and adjusted EBITDA margins in the low to mid-20% range.

On a reported basis, data's revenue increased 5.1% from the second quarter of 2022 to \$72.1 million. Comparable adjusted revenue increased 8.4% year-over-year, driven by strong data-driven marketing results. As Barry mentioned, the Deluxe Web hosting business has now been fully divested as of June 29.

Data's adjusted EBITDA margins in the quarter decreased 80 basis points year-over-year to 24.7%. On a comparable adjusted basis, EBITDA margins declined 120 basis points. For the second half of 2023, inclusive of the sale of the Web hosting business, we expect data adjusted EBITDA margins in the mid- to high teens. For the full year, we continue to expect low single-digit revenue growth on a comparable adjusted basis, and we also expect to see blended adjusted EBITDA margins in the low to mid-20% range for the full year.

Turning now to our Print businesses, promo and checks. Promotional Solutions second quarter revenue was \$138.8 million, flat with last year on a reported basis. Promo's comparable adjusted revenue increased 2.2%, driven by new sales wins, pricing actions and adjusting for \$3.5 million of divested revenue from multiple 2022 business exits. Promo's adjusted EBITDA margin increased 480 basis points year-over-year to 15.3% as we returned to mid-teens levels following last year's challenging second quarter.

As a reminder, through a combination of pricing actions, improvements in operations, supply chain and cost structure, the business has stabilized significantly over the last few quarters. For 2023, we continue to expect to see low single-digit comparable adjusted revenue growth and adjusted EBITDA margins in the mid-teens. Check second quarter revenue increased 1.4% from last year to \$186.4 million, benefiting from some timing impacts relating to the catch-up of ERP-related issues. Checks also benefited from resilient demand and the continued positive impact of responsible price actions. Second quarter adjusted EBITDA margins were a solid 44.8%, essentially flat year-over-year.

On a year-to-date basis, Checks revenue was down 1.6% year-over-year with margins at 43.9%. For 2023, we now expect low to mid-single-digit revenue declines and adjusted EBITDA margins in the mid-40% range, consistent with our long-term expectations.

Turning now to our balance sheet and cash flow. We ended the quarter with a net debt level of \$1.63 billion, down from \$1.66 billion compared to the first quarter. Our net debt to adjusted EBITDA ratio was 3.8x at the end of the quarter, down from 4x at the end of the first quarter, and our long-term strategic target remains approximately 3x.

I would also like to mention that in the second quarter, we completed an additional 3-year floating to fixed interest rate swap at a fixed interest rate of 4.25% beginning on June 20, 2023. This swap carried an initial notional amount of approximately \$300 million. The swap will amortize over a 3-year life, making about 75% of our total debt fixed rate.

By increasing our fixed debt ratio, we are now better insulated against ongoing variability from potential rate hikes, including the one announced last week. Free cash flow, defined as cash provided by operating activities less capital expenditures, was \$23.7 million, which compares to \$13.5 million in the second quarter of 2022. On a year-to-date basis, we remain slightly behind our plan, but the second quarter represented a significant improvement from the first quarter and prior year.

Our Board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on September 5, 2023, to all shareholders of record as of market closing on August 21, 2023.

To reiterate my comments from the last call around capital allocation, we are responsibly investing the significant free cash flow generated by our core Print businesses into our Payments and Data businesses that we believe can generate more robust growth over time. Our priorities for capital allocation are clear: reducing our debt and net leverage to a level below 3x, funding 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 7% yield.

We continue to review the dividend with our Board, and our current focus is to grow out of that high yield through improving business performance. Importantly, we remain focused on further accelerating our rate of debt paydown through continued improved EBITDA and free cash flow generation so that we can get back below 3x levered. As an example, the completion of our previously referenced ERP upgrade will serve as a foundation for continued operational efficiency and unlock new opportunities to further improve our cost structure.

Turning now to guidance. Today, we are raising our full year 2023 expectations for revenue and earnings, keeping in mind all figures are approximate and reflect the impact of the Web hosting divestiture, which closed on June 29. As detailed further within today's press release, we are increasing our guidance, now expecting revenue of \$2.18 billion to \$2.22 billion, adjusted EBITDA of \$400 million to \$415 million, adjusted EPS of \$3.10 to \$3.40 and free cash flow of \$80 million to \$100 million, which is unchanged from our previous guidance.

We are raising our guidance based off our strong start to the year and continued progress in yielding operational efficiencies. On a comparable adjusted basis, we see 2023 revenue growing between 0% and 2% and comparable adjusted EBITDA between negative 1% to positive 3% growth. Adjusted EPS, while a substantial improvement from our original guidance is still expected to decline year-over-year due to the full year impact of rising interest rates, incremental depreciation and amortization and an estimated \$0.15 impact from the recently closed divestiture.

We remain confident in our full year free cash flow guide and believe it remains prudent to hold the prior range based on our year-to-date results. Also, in order to assist with your modeling, our guidance assumes the following: interest expense of \$120 million to \$125 million; an adjusted tax rate of 26%; depreciation and amortization of \$165 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 consumer spending, interest rates, labor supply issues, inflation and the impact of divestitures.

To summarize, we are encouraged with our second quarter results and believe we have solid momentum heading into the second half of the year. In addition to continued revenue growth, our laser focus on increasing operational efficiencies will help us grow EBITDA, continue to improve free cash flow, pay down debt and further lower our leverage ratio.

Operator, we are now ready to take questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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

Congratulations on the nice quarter. I had 3 questions, if I can squeeze them all in. The first is -- and I know, Barry, you talked about Merchant Services, Merchant acquisition being somewhat influenced by the underlying consumer sentiment and consumer spending and the like. But I was wondering if there was anything else there to call out because the numbers did seem a touch soft.

And then could you just clarify, I think you said you'd expect to get back to mid-single-digit revenue growth in that line. But was it in by the second half or by the end of the year, what was the sort of the timeframe there for getting back to that mid-single-digit growth?

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

Sure. So let me just give you a little more color commentary there. Our acquisition of new merchants and our activations in that business are solid and continue to be solid and very pleased with how we're developing partners. What we saw at the beginning of the second quarter was just a softness in discretionary spending categories that improved modestly as the quarter unfolded. And that's exactly the same pattern that we've seen in lots of economic forecast that's also in the card associations data.

So then as far as the year goes along, we believe that we're going to be able to deliver the full year mid-single-digit growth for the entire year because we're just pretty confident in the portfolio, its ability to perform. And even though there was that April first part of the quarter softness, we've seen some improvement, and I feel good about how the full year will play out.

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

Great. No, that's actually super helpful. I appreciate the clarification. And then somewhat related on the Data Solutions, where the revenue growth was actually, was quite robust. I would have expected that to more closely match the performance in Merchant acquisition because both would seem to be driven by consumer spending and sentiment to a certain extent. But could you help me untangle the drivers there? And what was it that enabled Data Solutions to kind of chug through whatever slowness we might have had in the early part of the quarter?

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

Appreciate the question. And I think it really highlights, Lance, the success we've had in expanding across and into new market verticals. So as we mentioned in our comments, we were able to secure and win some business in categories that are not interest rate sensitive at all. We also had significant wins in some more traditional financial institution channels. But we also had a really nice win with a top 10 FI, who launched a program to gain new -- gather new deposits, both for business and consumer accounts. And I think it just goes to show that this business and how we've diversified the business really allows us to pivot to whatever the market need is at that moment in time, and we've been able to capitalize on that.

Banks are looking for gathering deposits, so we are able to shift and help banks do that. At the same time, we're able to expand into new market verticals to provide us different avenues of growth. And we think it just really shows that the investment and our commitment to that space is producing results, and we're proud of that.

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

Great. Okay. And then the last one for me is actually on the balance sheet. A nice job there. Could you remind us, is that -- do you have a target for how quickly -- and I apologize if you said this on the call and I missed it, but how quickly you expect to delever over time? I think at one point, you had talked about a half a turn a year, but I don't know if that's still current or if I'm recollecting that correctly?

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

So you're right, the half a turn a year was our original going out guidance when we did the First American deal a little over 2 years ago. Obviously, interest rate environment has changed that economic conditions have changed a bit. So we've had to step back from that just a bit. Right now, as we look at the trajectory of the business, projections for free cash flow, we think we can get near that 3x point some time in 2025. There's still a little bit of ways to go, but we remain committed to that and see progress in the horizon to get us back down there.

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**Operator**

Your next question is from the line of Charles Strauzer with CJS Securities.

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

I'm just hoping we could just talk a little bit more about the guidance. And it's a pretty good range there, and just some of the assumptions and confidence you have behind the numbers, both the low end and the high end of the range is there. Just if you could give a little more color on to what you're assuming in that -- those numbers.

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

Great. Thanks, Charlie. So first of all, we're very pleased with the first half performance. As we look at the first half, whether it was getting through the ERP-related issues in the first quarter, recovering on those in the second quarter, we just feel really good about what we delivered and where we stand against our internal plan.

As we look ahead, we see continued momentum, and we feel really good about the guide for the full year. It is important to note there's a couple of dynamics inside of our year-to-date performance that we need to just anchor you on to make sure it's very clear on what the second half should look like.

So if you think about the second quarter and you think of EBITDA of \$108 million, there's really 2 caveats inside of that, that I want to make sure we're clear. So we had roughly \$4 million of carryforward EBITDA from the first quarter related to the ERP delay that landed in the second quarter. That's now cleared itself on a year-to-date basis and wouldn't repeat going forward.

We also nearly had the 4 Web hosting business for the whole quarter, which is about another \$4 million of EBITDA. So on a run rate basis, while we're pleased with the \$108 million we delivered in the second quarter, we're really more on a trajectory of closer to \$100 million, give or take. And so you need to think of that as the launching point for the second half of the year. We feel good about our guidance. We continue to work on operational improvements to improve the cost structure and drive EBITDA and free cash flow. And of course, we continue to monitor the broader macroeconomic conditions and continue to think it's wise to have a range on the revenue

side.

We're pleased with the way we've driven sales pipeline, the levers at our disposal. Barry mentioned, our confidence in Merchant, but there's more volatility there, and so we maintain a bit of a range on the revenue outcome. And hopefully, when we get to the fourth quarter, we can tighten that range a bit.

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

That's very helpful. And then just looking on the cost side and some of the efforts you've been doing for a few years now just to make your business more efficient and more healthy fiscal. Can you talk a little bit more about some of the ongoing cost effort -- cost reduction efforts that are still on the plate?

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

Sure. So you'll recall we talked about site closures and consolidations on the first quarter call. So we continue to focus on the lockbox operation specifically, which includes a function of consolidating actual real estate site locations, getting more efficient and automated on how work gets done and managing our labor force with partner -- external partners.

In addition, we continue to look at the production footprint. We announced the closure of a production site in the second quarter. So we continue to look at operations and fulfillment to shut that down. We also completed the ERP, which I know we've talked about for a long time. We've now turned the chapter when it comes to infrastructure-related technology spend. And so now we really have to think about go forward, it's really about looking for other opportunities and initiatives to take costs out of the business and do it with an eye on high-return projects.

We will continue to spend in the right areas to get costs out of the business, but it has to end and follow a business case is an attractive returns, you should expect to us to continue to look at that, whether that's more process automation, efficiencies in the tech stack or, of course, just how we deploy resources across the company.

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**Operator**

Your next question is from the line of David Silver with CL King.

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**Thomas Ginsburg**

This is Thomas Ginsburg from CL King. I'm filling in for David today. So I have 2 questions. My first question. In regard to the updated full year financial guidance you provided, could you highlight the main incremental drivers for revenue as well as adjusted EBITDA. And in particular, will Data Solutions continue to record the fastest growth among your segments? And what are the prospects for an acceleration in Payments growth?

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

Okay. So a lot there. We'll try to unpack that. I'm going to first start with the Data side. So as Barry mentioned, very, very pleased with what they delivered in the second quarter. Given the divestiture of the Web hosting business, there's a few pieces of dynamic. I think it's clear that we need to lay out.

So first of all, on a year-to-date basis or rolling 6-month basis, the overall segment was up 1% year-over-year. Sorry, it was up 1% on a rolling 6-month basis. It's up 6%. The reason it's up 1% on a roll-on basis externally reported is because of the declines inside the Web hosting portfolio.

We mentioned in the first quarter call, it had declined 8%, and it actually further declined more in the second quarter. So when you really take a step back and you look at the DDM specific part of that portfolio, it's right along that mid-single digits rolling 6-month average, and we believe that that's the way it will match for the second half of the year as well as the full year.

When you blend it all together because of the declining piece of the Web hosting portfolio from the first half of the year, that's where you get to our full year guide of low single digits. So data we think can continue to do what it's going to do. That business can be a little



seasonal and have maybe stronger periods and weaker periods, but we continue to see really good momentum and a good feeling of that business. And it's important to look at it over a rolling basis just to see how that overall trajectory is going.

On the full year, I think we've delivered a solid first half, and so we feel great about the guide and what we've got to go. As I said before, we've got to maintain a higher range. You see a lot of area of opportunity. We do expect Check to return to secular decline. That's important. It had a very strong second quarter, whether it was fulfilling the backlog from ERP or even having enough efficiencies to even pull forward some production, but we definitely see that being a return to secular declines and very long -- abating the levers from a Payments perspective that you see.

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

So in the Payments business, in the Merchant business, as I said earlier, we feel great about our Merchant acquisition, our activation which is about new merchants. And we think that as spending, consumer spending normalizes again, we'll return to more normal volumes, which would be helpful for us.

And similarly, in our B2B payment space, we've got a number of plays, including products that will be introduced later in the year that we think will help us bring additional revenue and get us back to what we consider a more normal growth path in that business. So we feel pretty great about the blend before the year, we feel great about Payments. The Data business, of course, is terrific, although that business can be slightly more lumpy. We feel very great about that business overall and feel great about our guidance for the rest of the year.

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**Thomas Ginsburg**

Okay. And I actually have 1 more question, sorry. It's about First American. So it's been about 2 years since obviously, our biggest acquisition to date in First American. So how is that asset performing compared to your expectations? And what is your plan for growing that asset over the next 12 months?

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

So overall, we are very, very pleased with that acquisition. It's the largest we've ever undertaken in the company's history. We actually also believe it's the most successful.

Let me just give you a couple of examples there. When we acquired the business, it was a low single-digit revenue grower. We think that we have made it a sustainable mid-single-digit. Revenue grower, very pleased by that. We think there's additional upside potential there. We've done it by unleashing and bringing the great distribution that Deluxe has in the financial institutions.

We have 4,000 bank partners. We have millions of small business customers. And as a result, the profile of the partnership wins within First America has expanded to larger-scale banks. I think it's over a 50% increase in the average size of the bank that we are now targeting, and we are winning as well as the number of wins in banks overall are up significantly, I think, over -- well over 50% increase in the bank win rate as well. So we feel great about it. We think that there's continued future upside. And as far as where we go next, I think you'll continue to see us invest in higher-growth segments and market verticals, where we think we have a right to win. We've got great distribution and existing relationships.

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**Operator**

Your next question is from the line of Marc Riddick with Sidoti.

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

So I wanted to -- actually, that kind of dovetails into one of the areas I was going to ask about. And that was around what you're looking at as far as the acquisition pipeline and maybe how are you sort of feeling about potential add-ons and maybe the valuation that maybe you're seeing out there? And then I have a couple of follow-ups after that.

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

Appreciate the question, Marc. Let me start by being really, really clear. Our primary focus today is debt reduction and improving our leverage ratio. And the way we're going to do that is by growing our business faster than we've grown it before and doing a better job on the cost side. And those things we think will deliver great shareholder value.

Now also note, and I think you're alluding to the fact that when we bought First American, we were really clear that we were buying a platform for future growth that has the capacity and capability from bolt-on acquisitions. We fundamentally still believe that is true, and we believe we will absolutely move in that direction at the appropriate time.

But our immediate priority is to improve the leverage ratio and do that through improving our operations. And that's also why we're really pleased with what happened in the second quarter and of the whole first half and what we're able to forecast for the full year. I think it's showing our focus there is yielding benefit.

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

Excellent. I wondered if you talk a little bit about now that we have a little more time and a little more distance from going live with the ERP. I was wondering if you could talk about maybe some additional learnings benefits or some things that maybe that you've gleaned from the last time so.

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

So I'll just remind that at the -- we started the ERP program because we had systems that really needed to be modernized. They were quite integrated. But that is all now behind us, and it gives us the opportunity to do more things around efficiency, gives us better insight into what's happening in our business and it also allows us to streamline, not just our technology platforms but gives us opportunity to dig deeper into our -- what our retail prices are, what our costing is, what happens in our supply chain.

It really opens the door for us to consider multiple facets that we had a hard time getting deepen a visibility into. And we're pleased that we're going to see that visibility and starting to take action on that. We think that will continue to yield results over time. Do you want to add on that?

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

Marc, I would just say we can't underscore just how hard the team worked on this. We have to continue to thank the team for all the work and effort they put into it. It's been a very busy first half of the year, getting stable and live, and we feel great about where we are. We're not in the place anymore where it's about keeping up with production and being able to fulfill orders.

We still have a little bit of work to do to fix every single aspect of the end-to-end customer experience, whether that's billing or how we internally report things back to the dealer reseller side. We still have a little bit of work to do, but these are small immaterial things in the grand scheme of the company but important to our customer base. And we'll continue to focus on that where you're going to see us focus on is the process underneath.

So whether that's the order management systems that are on the front end of the ERP, all the way through to how we process things through the system, we can now go do process-related work, which doesn't take a heavy technology investment just takes resources and capacity, and we think we can unlock a lot of operational improvements from working on processes. And so that's where we're going to turn our focus here in the second half of the year.

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

Excellent. And the last one for me is that, I guess, SG&A as a percentage of revenue for the quarter, at least relative to where my numbers were, was certainly better than what we were expecting. I just wanted to talk a little bit about various cost measures, cost controls, anything in that nature that you saw there and how that plays into the full year guidance?

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

Yes. So I can't speak exactly to what you had in your model. But just in general, we feel good about the work we've been doing. So year-over-year, SG&A is favorable about \$4 million, which obviously, with revenue growth shows operating leverage and what we're doing. And there's no real specific one call out of what's driving that. That's just general cost improvements and focus across the enterprise to take costs out where we can and continue to deliver both the revenue and organic adjusted EBITDA growth.

**Operator**

We have a follow-up question from the line of Lance Vitanza.

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

Just wondering -- and I know you sort of -- you addressed this in terms of talking about the nonrecurring EBITDA in the quarter. But I'm just wondering the cash flow guidance being unchanged. I'm wondering if there's anything else there as we think about cash flow generation in the back half anything unusual that we might expect, whether it was on the working capital changes in the current quarter or in the first half that won't recur in the second half or perhaps some onetime items that will negatively impact cash flow in the second half. Anything there that we can be thinking about?

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

Yes. Great question, Lance. Thank you. So first of all, we're very pleased with the second quarter free cash flow result. As I said, we're still a little behind our plan on a year-to-date basis. But having been negative in the first quarter and to deliver nearly a positive number to offset, it was a great start.

And so we got there through obviously higher earnings, improvement in working capital. And there's a few items that occur in the first quarter of the year that don't repeat another period. And so if you think about the second half versus the first half, you're going to see a continuation of both those things. We do expect CapEx to be lighter in the second half. Those site consolidation efforts and the things around real estate we mentioned, those projects were more front loaded for the year. So that, plus the sale of the Web hosting business, give us some tailwinds on CapEx second half of the year.

Taxes have a bit of a seasonal portion to them, so they'll be lower in the second half of the year. We have annual incentive payments that occur in the first quarter that obviously don't repeat in the second half of the year. And then beyond that, it's really going to be a focus on working capital. It doesn't take Herculean efforts of working capital in the second half to deliver our guide, but we continue to focus on all aspects of that, whether that's now that we're live on ERP or through all the supply chain challenges last year, continuing to work down our inventory balances and continue to be better about collections and management of our DSO.

And so if you really think about it, to deliver the midpoint of our range for the full year, that's a very impressive second half, and it's the second half we have confidence in, and we look forward to delivering.

**Operator**

At this time, there are no further questions. I will now hand the call back over to Brian Anderson for any closing remarks.

**Brian Anderson**

Thanks, Tamika. Before we conclude, I'd like to mention that management will be participating in CL King's 21st Annual Best Ideas Conference on September 18 and the Sidoti Virtual Small CAP Conference on September 20. Thank you again for joining us today, and we look forward to speaking with you in November as we share our Third Quarter 2023 Results.

**Operator**

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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