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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe Third Quarter 2023 Earnings Conference Call. (Operator Instructions) And today's call is being recorded.

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.

Brian Anderson - *Deluxe Corporation - VP of Strategy & IR*

Thank you, operator, and welcome to the Deluxe Third 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 seen 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 may cause our 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.

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

Thanks, Brian, and good morning, everyone. We have some important updates to share today, so our prepared remarks are a little longer than usual. We have 2 primary topics we'd like to cover this morning. First, our solid third quarter and year-to-date performance and increased 2023 earnings guidance. Second, the launch of an exciting enterprise-wide initiative to deliver $100 million of incremental run rate free cash flow and $80 million of increased comparable adjusted EBITDA with the results ramping through 2025.

We call this initiative Project North Star. North Star will begin delivering an increased adjusted EBITDA in Q4 of this year. First, a few comments regarding quarter and year-to-date performance. Our overall third quarter performance met our expectations and was consistent with the increased full year guidance we provided last quarter. Chip will provide both reported and comparable adjusted numbers, but I will focus here on comparable adjusted results, which we believe best reflect the underlying business performance given our divestitures.

For the third quarter, total revenue was flat year-over-year at $538 million, while EBITDA expanded 3% to $102 million. Year-to-date through the third quarter, our total revenue has grown 1%, while EBITDA has expanded by 4%, demonstrating our continued ability to drive efficiency in our cost base while delivering profitable growth.

For perspective, we're on track to deliver our first full year of concurrent organic revenue and EBITDA growth in more than a decade. Further, in the third quarter, we delivered our third straight quarter of operating leverage with profit growing faster than revenue. 2023 will also be our third consecutive year of organic revenue growth.

On guidance, we are reiterating our 2023 revenue range, which we raised during our second quarter call. We've also increased our full year EBITDA and adjusted EPS guidance to reflect both our year-to-date performance as well as in-year impacts from the Northstar initiative. Chip will provide more details during his comments.

Overall, we're pleased with our execution through the third quarter of the year. To provide some brief comments regarding our operating segments. Overall, Payment segment revenue was flat in the third quarter, below our expectations of mid-single-digit revenue growth. The result was primarily impacted by some continued softness within the lockbox portion of our B2B payments business.

You will recall, we signaled volume softness in this area during last quarter's call. In addition, this line of business was lapping a challenging prior year comp during the third quarter.

On a more positive note, revenue growth improved during the third quarter for the other half of our payments business, Merchant Services, increasing sequentially to just over 2%. You will recall that macroeconomic factors including discretionary consumer spending trends and impacted year-to-date processing volume within this business.

We continue to actively monitor related reports, noting some recent improvement within retail spending trends, while the overall economic outlook remains somewhat uncertain. As a reminder, our merchant services business also has a strong presence across several less discretionary areas, which continue to perform well.

Year-to-date, through the third quarter, Merchant Services revenue growth was roughly 3.5%, and we remain confident that the merchant business will deliver mid-single-digit revenue growth for the full year.

Here's an example of why. We achieved an important milestone during the quarter in merchant services that will help further accelerate our growth in the fourth quarter and beyond via win with Fulton Financial Corporation. Fulton has more than 200 banking center locations, spanning 5 states across the Mid-Atlantic and Northeastern United States with more than $27 billion in assets. This expanded relationship alone could generate a few points of incremental growth next year for merchant services. We won the business because of our superior customer support, robust and reliable platform and our omni-channel capabilities.

Fulton represents a significant milestone for our business, demonstrating successful expansion into the middle market for our merchant services offerings. The win is another example of the scalability of our competitive product offerings across both SMB and commercial markets and further validates our ability to cross-sell merchant services to an existing Deluxe customer.

You will recall, bank cross-selling was one of the core investment thesis for the First American acquisition. Deluxe has 4,000 financial institution customers, providing us with plenty of fertile ground to harvest for merchant services.

Moving now to our strong third quarter results for the Data Solutions segment. We are particularly pleased with the continued exceptional performance within this segment as revenue increased over 24%. These results accompanied more than a 45% growth of EBITDA during the quarter and were driven by a continuation of robust campaign execution across many of our FI partners.

We have continued to see strong demand for our data-driven marketing services in support of banks seeking low-cost deposits as we noted in the last quarter, in addition to expansion of their business banking account offerings. We also continued our expansion into non-FI and other less interest rate-sensitive market verticals.

Shifting now to our Print businesses comprised of our Promotional Solutions and check segments. Combined, these businesses generate more than $1.2 billion in annual revenue with an EBITDA margin rate in the low 30s. On a blended basis, these businesses declined at low single-digit rates and in many cases, have recurring or reoccurring characteristics.

Consistent with expectations on a year-to-date basis, the combined print businesses have seen revenue declines of less than 1%, while EBITDA margins have expanded by 50 basis points to just over 31.5%.

In the Promotional Solutions portion of our print business, third quarter revenue declined 7.5%. We did see some demand softness during the quarter, and we executed a previously planned site closure impacting some of our production. We have also shifted our focus and resources within this area toward products that are more reoccurring in nature with generally better margins and lower customer acquisition cost.

On a year-to-date basis, EBITDA for the promo segment improved more than 15% on revenue growth just under 1% versus 2022. Finally, our Check business continued to deliver strong results with third quarter revenue declining 1%, slower than the market and better than our expectations. Margins in the Check business have also sustained within the mid-40s expected level and EBITDA grew by 1% during the quarter, helping to contribute to our overall EBITDA leverage across the enterprise results.

We are pleased our Check business continues to perform well and much better than many have expected. We are winning market share, and our investments in production efficiency are working. The strength and predictability of this cash flow gives us even more confidence we have plenty of runway to complete our transformation into a payments and data company.

In summary, despite some third quarter specific headwinds, our year-to-date performance, reflecting revenue growth of 1% and EBITDA growth of 4%, demonstrate the scaling power of our business. Our wins highlight our competitiveness and will help us deliver sustained performance going forward.

Now to our second topic, Project North Star. First, a little background. As we have noted throughout this year, the lock is at an inflection point where our payments and data businesses together are able to outpace the secular decline within our print businesses. We have changed the company's trajectory and are now in our third consecutive year of organic revenue growth, and we are on track to deliver full year operating leverage in 2023 for the first time in more than a decade.

Next, we need to accelerate this performance to further drive shareholder value creation by expanding our EBITDA growth trajectory, driving increased free cash flow and more rapidly paying down debt and improving our leverage ratio. We have combined our execution plans into an integrated program we call Project North Star.

North Star will increase our run rate cash flow by $100 million and comparable adjusted EBITDA incremental $80 million, ramping through 2025. We will deploy the improved cash flow to pay down debt and improve our leverage ratio, consistent with our stated capital allocation priorities.

Importantly, North Star is not a change of our strategy of investing this cash flow from our Print businesses into our payments and data businesses. Rather, the initiative integrates our plans to drive executional certainty. The program incorporates clear hurdle rates and required returns on invested capital.

Our planning for this critical initiative has been underway for several months, and we're leveraging external expertise from best-in-class consulting and advisory resources to reinforce our rigorous approach to driving this value.

I have 5 main points to highlight on North Star. One, we're taking a portfolio approach to de-risk our execution on these multiyear outcomes. The program is comprised of more than a dozen separate work streams designed to work together to deliver the total value. Two, North Star is sequenced to focus on cash generation, so our early initiatives prioritized rapid time to value and high ROIC, which enables us to fund investment in complex longer-term initiatives, consistent with our multiyear planning horizon.

Three, North Star is a balanced mix, a structural cost reduction via org design, process and operational improvements in addition to work streams to drive revenue growth. Four, North Star is comprehensive and scale. We have already evolved over 100 of our current leaders in driving change across the organization. In doing this, North Star is adding executional certainty to our company-wide objectives and acting as a change agent for our talent and culture. 5, as part of North Star, we have already taken significant action to reorganize Deluxe teams. We have combined like-for-like capabilities, reduced management layers, and consolidated core operations to run the company more efficiently and create the ability to invest in high-impact talent to accelerate our growth businesses.

These steps, initiated during the third quarter, will contribute approximately $10 million of incremental run rate adjusted EBITDA to our forecasted fourth quarter outlook.

Finally, to provide more details about our strategy and North Star specifically, we will be hosting an Investor Day in New York on December 5. During this session, we will provide additional detail regarding the North Star initiative and share related guidance ranges for the next few years.

The Deluxe leadership team will provide insights into our current solutions, attractive growth prospects, and the linkages across the portfolio of offerings for the North Star outcomes. Brian will provide additional details regarding this event at the end of today's call.

Before passing this over to Chip, I want to again thank my fellow Deluxers for their continued commitment to our customers' success. By helping our customers to do more, Deluxers have changed the company's trajectory delivering sustained organic revenue and EBITDA growth. We are all proud of our momentum and look forward to the exciting future and benefits North Star will yield.

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

Thank you, Barry, and good morning, everyone. Before providing a few additional data points about North Star and covering the usual quarterly highlights, I'd like to touch on one additional business development since our last call.

During the third quarter, we made the decision to exit the U.S. payroll business through a partnership and executed conversion agreement with Paychex. We are working to ensure a seamless transition of our existing clients across this line of business. Results from the payroll business will reflect migration of these customers to Paychex, as these conversions take place over the next several months.

As a result, our comparable adjusted results beginning in the fourth quarter will be impacted. As a reminder, this business comprised approximately 1% of our payment segment revenue, and this transaction remains a part of our methodical effort to simplify the portfolio.

Now on to the quarter. On a reported basis, total revenue decreased 3.1% year-over-year, while total comparable adjusted revenue was flat at $537.8 million. We reported a third quarter GAAP net loss of $8 million, or $0.18 per diluted share, down from net income of $14.7 million, or $0.34 per share in the third quarter of 2022.

Adjusted EBITDA came in at $101.9 million, down 2.6% from the prior year, but up 3% on a comparable adjusted basis. Comparable adjusted EBITDA margins were 18.9%, up 50 basis points year-over-year.

Third quarter adjusted diluted EPS came in at $0.79, down from $0.99 in last year's third quarter. This decrease was primarily driven by higher interest expense and prior year earnings from exited businesses, partially offset by improved operational performance.

Now turning to our segment details, starting with our growth businesses' Payments and Data Solutions. Payments' third quarter revenue was flat year-over-year at $169.5 million, with merchant services growing 2.1% and the balance of the Payments business declining 2.5%.

As Barry noted, rates for the B2B Payments portion of the segment, including our receivables and payables solutions, were impacted by lockbox declines of 8.9%, resulting from ongoing volume softness and challenging prior year comparisons. In the third quarter of 2022, we temporarily processed a large amount of one-time volume due to an extended outage experienced by a competitor in the remittance space.

We continue to expect some lockbox volume softness to persist for the balance of 2023, but feel particularly good about margin and profitability due to our operational improvement initiatives in this area. Growth for the merchant business expanded from the rates seen during the second quarter, despite some continued uncertainty in the outlook for consumer discretionary spending levels, which we continue to monitor.

Payments adjusted EBITDA margins were 22.2%, up 90 basis points from the prior year. Operational improvements across our lockbox sites continue to show progress, driving much of the rate improvements seen versus prior year. Margins were largely flat year-over-year across the balance of the Payments business.

For 2023, we now expect to see low single-digit Payments revenue growth and adjusted even margins in the low to mid-20% range. On a reported basis, Data Solutions revenue decreased 4% from the third quarter of 2022 to $64 million. Comparable adjusted revenue increased 24.5% year-over-year, driven by continued strong data-driven marketing results, as Barry noted in his comments.

Revenue strength also continues to benefit from our ability to deliver an expanded market verticals, while continuing to support marketing efforts surrounding evolving bank needs, like low-cost deposit gathering. Data's adjusted even margins in the quarter decreased 10 basis points year-over-year, landing at 23.9%.

On a comparable adjusted basis, however, factoring for the divestiture of the Web Hosting business completed in the second quarter, this adjusted EBITDA margin reflected an increase of 370 basis points on the strong comparable adjusted revenue growth.

As we've discussed before, the DDM business is very campaign-oriented and tends to be lumpy quarter-to-quarter. It is often necessary to consider a few quarters together to better understand the business trajectory. For the balance of the current year, we expect Q4 DDM results to experience negative growth, reflecting both our year-to-date outsized revenue growth, as well as a challenging prior-year comp from some significant campaign shifts into Q4 last year

Inclusive of these factors, we continue to believe Data Solution results will deliver our existing full year guidance. For the full year, we continue to expect low single-digit revenue growth on a comparable adjusted basis, a result which includes declines within the Web Hosting business through the closing on June 29 of this year. We further expect to see blended adjusted even margins in the low to mid-20% range for the full year.

Turning now to our Print businesses, Promo and Checks. Promotional Solutions' third quarter revenue was $124.3 million, down 8.7% versus last year on a reported basis. Promo's comparable adjusted revenue decreased 7.5% as demand softened a bit across some of our extended distribution networks. Promo's adjusted even margin was flat year-over-year at 13.4%, as we maintained the mid-teens margin profile achieved during the second half of 2022.

As Barry mentioned, year-to-date comparable adjusted EBITDA for this business has grown by 15.2% as we're taking a more focused approach targeting products with a more reoccurring purchase profile and better margins, which may impact overall Promo revenue growth.

As a result, for 2023, we now expect to see full year low single-digit comparable adjusted revenue declines consistent with secular trends within our broader combined Print portfolio with adjusted even margins holding in the mid-teens.

Checks third quarter revenue performed strongly, decreasing 1.3% from last year to $180 million. Check demand has remained durable relative to our low to mid single-digit decline expectations and we continue to see positive impacts from our responsible price actions. Third quarter adjusted EBITDA margins were sequentially improved 45.2%, reflecting a 110 basis points increase year-over-year.

On a year-to-date basis, Check revenue is down 1.5% versus the prior year period with margins effectively flat at 44.3%. For 2023, we continue to expect low to mid single-digit revenue declines and adjusted EBITDA margins in the mid-40% range, consistent with our long-term expectations.

As Barry mentioned, we are pleased with the durability of cash flows from Checks, giving us even more confidence we have ample runway to complete our transformation.

Turning now to our balance sheet and cash flow. We ended the quarter with a net debt level of $1.59 billion, down sequentially from $1.63 billion at the end of the second quarter. Our net debt to adjusted EBITDA ratio was 3.8x at the end of the quarter, consistent with the second quarter, and our long-term strategic target remains approximately 3x.

Recall that approximately 75% of our total debt remains at fixed rates, inclusive of the swap that we entered into during the second quarter. We are now largely insulated against ongoing variability from potential rate hikes over the reasonable horizon.

Free cash flow, defined as cash provided by operating activities with less capital expenditures was $42.7 million, which compares to $23 million in the third quarter of 2022.

On a year-to-date basis, we have continued to see sequential growth for this important metric, with the third quarter representing continued improvement from our first quarter's seasonally negative result.

Our Board approved a regular quarterly dividend of $0.30 per share on all outstanding shares. The dividend will be payable on December 4, 2023 to all shareholders of record as of market closing on November 20, 2023.

Our priorities for capital allocation remain consistent, reducing our debt and net leverage below our long-term target of 3x, funding high-return internal investments, and paying our dividend, which is currently $0.30 per share per quarter and equates to a very attractive 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.

As Barry noted in his comments, we're particularly enthusiastic to announce Project North Star, which will further support our progress towards our long-term objectives and accelerate debt paydown via continued improved adjusted EBITDA and free cash flow generation, one of our key capital allocation priorities. This will bring us back below our long-term 3x levered target over the coming periods.

To provide some additional financial details around the program, we are targeting $80 million of incremental comparable adjusted run rate EBITDA from these initiatives, as well as incremental free cash flow of over $100 million annually ramping through 2025.

As Barry mentioned, you will see the first significant benefits from North Star within our Q4 adjusted EBITDA performance. We will execute against additional North Star work streams over the next 18 to 24 months and expect the initiative will also lead to an improved free cash flow trajectory starting in 2025, inclusive of the impact of cash restructuring and integration charges.

The overall program targets north of $100 million of profit improvements to offset the ongoing secular declines in the Print businesses. This will enable us to deliver the $80 million run rate EBITDA improvement and reported results by 2026.

We expect approximately $10 million of run rate incremental adjusted EBITDA within our Q4 outlook, primarily from cost optimization initiatives executed during the third quarter. To-date, we have taken restructuring charges of approximately $35 million with an expectation of up to another $80 to $100 million over the next 2 years to execute the full North Star initiative. These charges will be a function of severance obligations, professional services fees, and other restructuring related charges.

We will actively redeploy some of the savings realized from the North Star initiatives over the next 2 years to continue funding high ROIC growth projects and Payments and Data Solutions with the remainder of the free cash flow net of dividends used to pay down debt, again, in line with our capital allocation framework.

Our expectations would be for annual CapEx to remain largely flat over the next 2 years, as we continue to aggressively fund our transformation and corresponding core growth investments. We plan to provide additional detailed 2024 guidance during our upcoming Investor Day in early December, when we'll further lay out the timing and trajectory of the improvements along the way to achievement of the full run rate benefits by 2026.

With respect to our current Q4 and full year 2023 guidance, North Star actions taken during Q3 allow us to further update guidance for the year, given execution of these initiatives to drive approximately $10 million of in-year benefit. More specifically, today we are updating our full year 2023 expectations for both earnings and free cash flow, while maintaining our revenue guidance, 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 updating our full year guidance as follows. Reiterating revenue of $2.18 billion to $2.22 billion, increasing adjusted EBITDA to between $405 million and $420 million, raising adjusted EPS to between $3.20 and $3.45, and lowering our free cash flow range to between $60 million and $80 million, which is reflective of the North Star related cash expenditures noted previously.

While we are maintaining our revenue guidance range for the year, as we've mentioned a few times today, we have seen some volume softness in parts of the business in the third quarter that we expect will continue through the balance of the year. This outlook is likely to position us slightly below the midpoint of our revenue guidance range based on some of these recent trends. These results remain consistent with our continued expectations for another year of comparable adjusted revenue growth with comparable adjusted EBITDA growth between 0 and 4%.

As a reminder, adjusted EPS, while continuing to improve 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 Web Hosting divestiture earlier in the year.

And lastly, while I'm pleased with the third quarter free cash flow performance, the additional forecast of cash charges related to Project North Star will pressure our previous guidance range and expectations for the fourth quarter. Also, in order to assist with your modeling, our guidance assumes the following. Interest expense of approximately $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 43.9 million shares, and capital expenditures of approximately $100 million. Among other things, this guidance is subject to prevailing macroeconomic conditions, including consumer spending, global unrest, interest rates, labor supply issues, inflation, and the impact of divestitures.

To summarize, we are pleased with our third quarter and year-to-date results and encouraged by our ongoing execution. The launch of Project North Star is an exciting moment for the company and core to our ability to continue to increase operational efficiencies, grow EBITDA, improve free cash flow, pay down debt, and further lower our leverage ratio.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

And your first question is from the line of Lance Vitanza with TD Cowen.

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

My first question is, could you talk on the outlook for Merchant Services. Could you talk about what that outlook looks like given any potential regulatory changes that you are seeing potentially coming down the pike or prospects for new payment rails, that kind of thing? I'm just trying to get a better sense for how you view the medium to longer-term trajectory and opportunity there.

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

Hey, Lance, it's Barry. I would tell you in general, we, of course, pay attention to all the trends and all of the conversations that are going on around regulation, particularly around interchange. We don't anticipate that there will be any material impact on us in the intermediate or long-term.

As you know, our sources of revenue are primarily from fees that merchants pay per transaction. And while we do have some income related to interchange, we think that any of the pending things that are out there would have limited impact on the business.

But Lance, what I think our really big story for the quarter around Merchant Services business is our ability to expand up into the middle market around bank partnerships. The win on Fulton Bank is a really important milestone for the company. It's a segment of the market where First American that we acquired, you'll recall back in June of 2021, would just never have been competing for that business, much less win. And that deal alone will add a couple of points to growth in the merchant business going forward.

We're really excited about that, because we think it demonstrates the ability to win large deals, to cross-sell, to existing Deluxe customers, our Merchant Services business, and compete effectively with the feature set that we offer, which is very robust, and win up in that middle market. We're very excited about that, and we think that is a great indication about the opportunities we have ahead of us.

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

And then for my follow-up, just actually on the data side, could you talk more about the expansion to the high growth verticals beyond financial services? And I'm wondering if there are any either new examples that you could talk about that maybe you didn't call out before, or perhaps a discussion of some verticals that you'd like to get into, but aren't yet?

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

Yes. And so the very core of what we do in our data-driven marketing business is that we ingest massive amounts of data from over 100 different data sources. So we believe we have the largest data lake of consumer and small business data of anywhere in the United States.

We put on top of that our artificial intelligence tools, our AI tools, that extract data and help us identify and target individual consumers or small businesses to receive an offer. And then we go one step further and actually deliver that offer to the customer, the ultimate consumer, on behalf of our customer.

And so all of that is really targeted at businesses that have high lifetime value. So you wouldn't be doing all this effort for somebody to buy a one-time consumable product. This is for businesses that have long, high-value, long-term relationships. And so we've already expanded to telecom, unregulated utilities, high-end Internet merchants and home furnishing goods companies, property and casualty insurance. And so we've been very successful at expanding beyond our FIs to these additional market verticals that have high lifetime value.

So on your question about where would we go next? Anywhere where a business has a high lifetime value customer represents opportunity for us. And because we've built this massive-scale data lake, which we've talked about the last few quarters, it gives us this opportunity to continue our growth trajectory, expanding not only within the financial institutions, but outside anywhere where there's a high lifetime value for a customer.

Operator

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

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

Just a quick question. If we could talk about the cash flow and CapEx, obviously, this year is kind of the wrap-up of the ERP implementation. And the hope was that next year that CapEx number would come down from $100 million this year. Are you basically saying that the savings from that ERP wind-down are now going to be redeployed towards the North Star initiative?

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

Yes. Hey, Charlie, it's Chip. So very pleased with the Q3 free cash flow number. And you're right, we signaled $100 million of CapEx spend at the start of this year. And we believe that that's a good figure to assume for the next 2 years, roughly.

The spend we were doing around the ERP, as we entered into this year was much less around CapEx and more to do with the final integration and restructuring charges on that program. So if you recall, at the start of this year, we were getting through the end of the job there. All of our restructuring spend was really going towards that.

Now on the back end of the year, we're transitioning to Project North Star. So this year, we've been doing the 2 things. And so as we look ahead to next year, we do believe CapEx of approximately $100 million is still the right figure to allow us to continue to invest in growth in payments and data. But we do believe the restructuring side of spend this year is kind of the high watermark, and next year can still be a slight reduction.

And we believe free cash flow will still remain healthy in the near term. These cash charges we're talking about with North Star are not going to all occur at one-time. And it's really going to allow us to improve free cash flows over time, remain healthy in the near term and expand.

So we'll talk a lot more about free cash flow expectations at Investor Day and specifically the horizon over the next few years and our path to improve free cash flow conversion as a percent of adjusted EBITDA.

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

And then on the data-driven marketing side, Barry, if you could expand and provide a little bit more color there as to the types of customers that drove the growth in the quarter.

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

So we're really pleased, as I said in the prepared remarks, on the exceptional performance we're seeing in the data-driven marketing business. In the last 2 quarters in particular, in addition to serving non-FI channels, we have had significant requests from our bank customers to help them build their low-cost or acquire low-cost deposits. And so we've been very quickly been able to receive the request, use our new expanded database and our AI tools to rapidly deploy against an urgent need for bank customers to build low-cost deposits.

And so in addition to winning and delivering on the non-FI channel, we also had some nice wins and very, very quick delivery within the FI channel. That's really what's helped grow here and why we have such great confidence in the long-term. Obviously, like we said in our prepared remarks, not every quarter is going to look like the last 2, but we're really, really proud of the trajectory of this business for the full year and for what we see in the future as well.

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

Yes, and I'll just add another comment about it. So obviously, the data solution segment is a bit messy this year with the web hosting divestiture halfway through the year. If you take that aside, the go-forward portfolio will grow roughly 6% for the full year. The DDM-specific portion, that's really the growth engine inside of there, is going to grow closer to 7%. And so it's just a campaign-oriented business. Campaigns can shift right at the edge of a quarter in one way or out the other. And so we feel really good about where we're going to be at. And we just will have a decline here in the fourth quarter as we lap a tough comp, but we think that 7% growth figure that you kind of deliver for the full year is a good gauge for where this business is heading in the long term.

Operator

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

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

So I wanted to jump into -- and certainly, first, I want to thank you for scheduling the Investor Day because certainly for a lot of the questions that I'm sure that a lot of us have, you'll be covering it at that time. But I wanted to sort of circle back into maybe some of the process of setting up the program and maybe talk a little bit about maybe how the conclusion of the ERP -- did that sort of lead to some of the learning's or some of the initial pillars that led to Project North Star or sort of maybe how that -- how Project North Star sort of gathered steam, if you will, over these last few months?

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

Yes, Marc. This is Chip. I'll start and then Barry can add more color. So I think at first, I just want to reiterate that this project we're going through is a really good investment that we believe will drive meaningful and shareholders returns. As we wrapped up the ERP and everything we've been doing over the last 3 years, the one thing we know is that was necessary to get us here to this inflection point, and the organization didn't have the capacity to take on this bigger project until we got through that.

So this is a logical transition to the next step. And as we said, it's not a change in our strategy. It's really helping accelerate the path we've been on and to really provide that executional certainty that we will get there. And so we're very confident. We're very excited about this, and we think it's a great initiative, and we're very pleased that we've already executed that $10 million worth of in-year funding here in the fourth quarter, which annualized gives us a $40 million run rate already going into next year, again, partially offset by what will be secular declines. But that gives us the certainty that this is going to be successful and yield immediate results.

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

Well said. You know, we're really confident about this and that we've already put points on the board that are going to deliver for shareholders starting in the fourth quarter. We think is a really strong indication about the opportunity right in front of us that we're executing against.

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

Okay, great. And then I guess from the -- one of the things that sort of has jumped out is the resilience of the Checks. I just wanted to touch on that a little bit. I guess maybe at least from the vantage point of market share, what if we talk a little bit about that? I mean, how we should sort of look at that and kind of what you experienced in the third quarter and what you think may be available to you, at least vis-Ã -vis the overall secular expectations. It certainly seems as though you're still gaining market share if we're not looking at that.

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

So, first of all, I really appreciate the question. I think this is one of the things that maybe the market doesn't fully understand about the quality of the earnings and the cash flow that this company produces. Checks actually increased profitability in the third quarter and we are winning market share. Every time there's bank consolidation, we tend to be the big winner and that we continue to improve the effectiveness of our program of selling Checks through all of our bank and other non-bank channel partners.

And so, we really fundamentally believe that, and we don't dispute the check consumption and usage is in decline, but we are able to win market share and we're also able to price effectively that helps us control that decline at a rate less than the market, and we have a very long history of that. And actually, in the last couple of years, we've had a period where we had 4 consecutive quarters of revenue growth, while holding on to really attractive margins in the mid 40s.

So, that gives us a ton of confidence in our ability to continue transforming the company and, deliver the great cash flow that investors expect of us. And really proud of that, and we've got a great team that's working on it. We've made reasonable and responsible investments to improve and maintain our operating efficiency for the long term that also has given us a better product, a clearly superior product, which helps deliver us additional market share, helping us ensure that great cash flow for the foreseeable future.

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

Now, that certainly has gone quite well. So, thank you for those details and looking forward to the investor day. I'll turn it over there.

Operator

(Operator Instructions) And at this time, there appear to be no further questions. I will now turn the call over to Mr. Anderson for any closing remarks.

Brian Anderson - *Deluxe Corporation - VP of Strategy & IR*

Thanks, Dennis. Before we conclude, I'd like to mention that management will be participating at the Stephens Annual Investment Conference in Nashville on November 15th. More details regarding our Investor Day presentations, which will take place from 8:30 to 11 am Eastern on the morning of December 5th at the Lotte New York Palace Hotel, will also be posted on the investor relations site following this call.

Thank you again for joining us today, and we look forward to sharing more during our Investor Day activities, and again in early February as we share our full year 2023 results.

Operator

Ladies and gentlemen, this does conclude the Deluxe third quarter 2023 earnings conference call. We thank you for your participation. You may now disconnect.
