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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Deluxe quarterly earnings conference call. (Operator Instructions) 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 Corp - Vice President, Strategy and Investor Relations*

Thank you, operator, and welcome to the Deluxe Corp. fourth-quarter and full-year 2023 earnings call. Joining me on today's call are Barry McCarthy, our President and Chief Executive Officer; and Chip Zint, 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 and expectations about the Company's future strategy or performance, our forward-looking in nature as defined in the Private Securities Litigation Reform Act of 1995. Additional information about factors that may 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 31st, 2022, and in other Company SEC filings.

On the call today, we'll 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'll find additional disclosures regarding the non-GAAP measures, including reconciliations of these measures to the most comparable measures under US 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 Mccarthy - *Deluxe Corp - President and Chief Executive Officer*

Thanks, Brian, and good morning, everyone. I'm pleased to report our strong results, growing comparable adjusted EBITDA dollars, expanding comparable adjusted EBITDA margins and driving robust operating leverage for both the fourth quarter and the full year 2023 Importantly, these results also accompanied improved free cash flows, and they further demonstrate the strength of our focused portfolio of offerings. This provides us a strong foundation for continued growth and the execution of the North Star as we progress into 2024.

Before reviewing the 2023 results in more detail, I'd like to first provide five key highlights from the past year. First, the enterprise achieved its third consecutive year of organic revenue growth. And this year, we also leveraged our scale to grow profits faster than revenue. We have clearly changed the company's trajectory.

Second, we launched the enterprise-wide North Star initiative, which will nearly double our current cash flow run rate and add $80 million of incremental run-rate adjusted EBITDA by 2026. During 2023, we took actions to unlock $40 million of annualized incremental adjusted EBITDA for these goals. We will continue to execute additional value-creating initiatives within the program unlocking further opportunity throughout 2024 and beyond.

I'll provide more details about our North Star progress in a bit further, we expanded profits, growing comparable adjusted EBITDA by more than 3% compared to 2022, enabling us to improve our net debt position by more than $80 million versus the prior year end levels. So this was a $140 million improvement from our peak 2023 level at the end of the first quarter, as we've discussed, lowering our net debt while simultaneously investing for growth and maintaining our dividend remain our clear capital allocation priorities. We're well positioned for continued improvement of our overall leverage ratio as we begin 2024 and execute against our north star plans force we continue to be very pleased with the performance of Deluxe Merchant Services build from the First American acquisition in 2021. And finally, performance of our check business continue to exceed expectations, outperforming market and secular decline forecast. We were particularly pleased to expand check EBITDA margins by 40 basis points during 2023, a company a modest rate of revenue decline. Chip will cover this more in his comments. These results reflect our continued strong customer retention and service levels and ongoing wins in this space. This performance also highlights the strength of our execution and durability of the cash flows from our print businesses and check in particular.

Now to provide some brief details of our full year performance. Similar to last quarter, Chip will speak to both reported and comparable adjusted numbers, but I will focus here on comparable adjusted results, which we believe best reflect our underlying business performance, given our recent targeted business for full year 2023, revenue was $2.2 billion, up about $6 million or 30 basis points year over year, while our growth rate was modest. Importantly, this was our third consecutive year of organic sales-driven revenue growth, demonstrating our clear change in trajectory as further shows our transformation into payments and being a company. Total adjusted EBITDA dollars increased 3.2% from 2022, reflecting significant operating leverage across our portfolio as we signaled within our guidance expectations for both 2023 and 2024 at our recent Investor Day growing earnings faster than revenue. Delivering operating leverage is a key objective of the North Star execution plan. We're particularly pleased with this full year results. These overall results demonstrate the strength of our combined portfolio, and we're pleased to reiterate our 2024 guidance this morning, reflecting expected continuation of this revenue and strong earnings expansion. Chip will cover more in a moment.

Moving on to some high-level operating segment highlights. For the full year. Payments revenue grew 1.8%, while adjusted EBITDA dollars grew 5.7%. And overall margins expanded 80 basis points from 2022. We're pleased with the overall trajectory of the merchant business while continuing to work toward improvements in the areas of the B2B business, which encountered some challenges during the second half of 2023. As we've highlighted in prior quarterly calls, the payments segment achieved overall growth and margin expansion despite several video headwinds impacting demand across the portfolio as well as some nonrecurring revenue results within the prior year comparison, our merchant services business led the way with a strong finish to 2023. We were particularly pleased with the fourth-quarter performance of this business, which posted 8.7% growth versus the fourth quarter of 2020 to benefit from the implementation of the large new win we discussed previously. This strong finish helps drive the overall 4.8% growth have Merchant Services revenue for the full year. Our One Deluxe cross selling model further contributed to these results. Continued investment in our technology driving feature and functionality enhancements for our merchant offerings, along with our strong demonstrated customer service capabilities, underpin our continuing optimism for Merchant Services.

Moving now to our strong results within data solutions. Overall, the data-driven marketing business performed well during 2023, driving overall data segment revenue growth of 4.3% for the full year. While the previously noted quarter to quarter impact from a campaign oriented nature of the DTM business was seen in our Q4 results, we are confident the prospects for this business remain strong as reflected in the 2023 Annual Results. Our solid full year DTM growth rate benefited from FI partners seeking low cost deposit customers and continuing expansion of their business banking account offerings. We also continued our extension into non FI and other less interest rate sensitive market verticals. As we have discussed on prior calls, excluding the first half web hosting revenue results within the data segment, the remaining DTM business grew approximately 7% during 2023, consistent with our longer-term expectations for the business. We remain very pleased with the potential for continued growth and margin expansion opportunities in this area as the business benefits and increasing scale.

Shifting now to our print businesses comprised of our Promotional Solutions and checks segments. Combined, these businesses generated $1.3 billion in annual revenue during 2023 with a blended adjusted EBITDA margin of approximately 32%, consistent with our guidance for full year 2023, combined print businesses experienced an overall revenue decline of just over 1%, while blended EBITDA margins across the combined segments expanded 50 basis points, highlighting our solid execution capability.

Before concluding, I also want to share a brief progress report on the North Star initiatives. Our long-term goal is to unlock $80 million of incremental comparable adjusted EBITDA and $100 million of incremental free cash flow all by 2026.

As we noted in December, our initial org simplification actions implemented late in the third quarter will drive annualized adjusted EBITDA improvement of $40 million against our overall North Star target of $130 million. As a reminder, our overall target of $130 million of EBITDA improvements help offset the impacts of expected secular decline within our print businesses, generating the overall net $80 million run rate EBITDA improvement of, yes, a $40 million impact from our 2023 actions will contribute toward the expanded earnings expectations included within our 2024 guidance range as the current slide reflects the 2024 incremental work streams will unlock additional value from both cost savings and revenue enhancing. We'll provide further North Star updates during our first quarter earnings call in May to summarize, our overall 2023 results reflect a strong momentum for sustaining organic revenue growth, operating leverage and increasing cash flow generation be further acceleration of our progress against our clear capital allocation priorities as the North Star are more focused and a rationalized portfolio of offerings will enable additional clarity across the organization's growth objectives and D. The completion of our infrastructure investments, including our upgraded ERP, which went live one year ago, will serve as a foundation for our continued optimization of processes and efficiency across the enterprise.

Before passing this to chip. I want to thank my fellow directors for another strong year for their unwavering dedication to our customers and the communities that we serve and for their continued commitment in transforming Deluxe into a modern payments and data company. Over to you, Chip.

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

Thank you, Barry, and good morning, everyone. As Barry noted, we were very pleased with our overall Q4 and full year 2023 progress, particularly our strong cash flow generation and the improvement of our leverage ratio during the year.

I'll begin today reviewing some of the consolidated highlights for the year before moving on to the operating segment results and reaffirmation of the 2024 guidance we provided at our recent Investor Day event for the full year on a reported basis, we posted total revenue of $2.192 billion, down 2%, driven by the impact of our recent divestitures, but increasing 0.3% year over year. On a comparable adjusted basis, we reported full year GAAP net income of $26 million or $0.59 per share for the year, down from $65 million or $1.50 per share in 2022. This reduction was primarily driven by higher interest cost and the impact from the hosting business exit. Full year adjusted EBITDA was $417 million, up $13 million or 3.2% on a comparable adjusted basis from last year. Adjusted EBITDA margins were 19%, improving 50 basis points on a comparable adjusted basis, total adjusted EBITDA dollars reflecting prior year comparisons, inclusive of our focused business exits, declined 0.2% for the year, while EBITDA margins improved 30 basis points. Full year adjusted EPS came in at $3.32, down from $4.8 in 2022, primarily driven by impacts from our 2022 and 2023 and year business exits, increase interest expense and changes to taxes, depreciation and amortization.

Now turning to our operating segment details. Beginning with our payments and data solutions segments. Payments grew fourth quarter revenue by 2% year over year to $175 million, with Merchant Services growing 8.7% year over year. As Barry noted, the balance of the segment saw declines of 5.1% during the quarter as we lap some onetime receivables hardware revenues during Q4 of 2022. We also continue to see some year-over-year volume softness within the lockbox business as we previously signaled could continue. Overall payments Adjusted EBITDA margins improved by 260 basis points to 24.2% during the quarter with adjusted EBITDA dollars growing around seven times the rate of revenue expanding 14.3%. These results were driven by both the scaling benefits of the strong merchant growth as well as continued improvement of the margin profile for the B2B payments offerings estimated to have improved by more than 300 basis points during the period despite the year-over-year revenue headwinds for the full year, segment revenue grew 1.8% year over year to $691 million, led by the solid 4.8% growth within Merchant Services. The balance of the segment revenues experienced a 1.3% year over year decline for the full year. This result was inclusive of some continued demand softness within lock boxes noted as well as lapping several nonrecurring revenue contributors during the second half of 2022. We noted during our last call that 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, 2023 results for B2B payments also lapped some nonrecurring revenues related to one-time sales of remote deposit capture or RDC hardware and other receivable services.

During the fourth quarter of 2022. Despite these overall revenue results falling below our expectations, our actions to drive operational improvements, particularly within the lockbox footprint of the B2B business, continued to help drive strong margin outcomes for the year for the full year to be adjusted EBITDA dollars are estimated to have expanded by approximately 6%, in line with the overall mid-single digit result for the full payments segment. For the total payments segment, full year adjusted EBITDA growth outpaced the 1.8%, top line expansion, increasing 5.7% to $153 million, while adjusted EBITDA margins improved 80 basis points to finish at 22.1% for the year, consistent with our ongoing expectations, our margin optimization initiatives set us up well to capitalize on growth opportunities within the merchant and B2B markets. Going forward, we remain confident that payments will achieve overall mid-single-digit growth for the coming periods.

Consistent with the overall outlook we shared during Investor Day.

Finally, as a reminder, during the second half of 2023, we made the decision to exit our payroll and HR and lines of businesses via executed conversion agreements. We will be partnering with Paychex in the U.S. with pay works in Canada, working to ensure seamless transitions of our existing clients across these lines of business as a result of these anticipated conversions expected to take place throughout 2024.

We will begin to discuss results for B2B payments on a comparable adjusted basis, similar to how we reported during 2023 for both the promotional and data solutions segments. As a reminder, the payroll and HR and lines of businesses comprise just under 4% of our payments segment revenue, inclusive of both US and Canadian businesses. And these platforms require significant ongoing capitalized software development and other investments, which the enterprise can now redeploy towards more strategically aligned growth areas. As Barry noted during his comments, fourth quarter data results were reflective of some of the quarter-to-quarter volatility exhibited within the DTM business, notably in comparison to some outsized year over year third quarter performance we experienced data's Q4 comparable adjusted revenue decreased 7.5% year over year to $44 million on a reported basis, inclusive of 2022 revenues from the now divested web hosting business. Sina's revenue declined just under 30% from the fourth quarter of 2022. As we noted a year ago, the data-driven marketing business saw several customers accelerate campaigns going planned data spend into Q4 of 2022 this year over year impact is a primary driver of the isolated fourth quarter comparisons for the segment on a comparable adjusted basis, adjusted EBITDA margins for the quarter decreased from 22.9%, 16.6% on a comparable adjusted basis. Again, reflecting the timing impacts surrounding year to year. Dtm campaigns noted above. We continue to believe a multi-quarter view of the DTM business remains the best indicator of our continuing strong performance for the full year basis, solutions comparable adjusted revenue increased 4.3% year over year to $239 million. On a reported basis, sales declined 10.7%. Keeping in mind, we completed the divestiture of our web hosting and logo businesses. On June 29th, 2023 data's Adjusted EBITDA margins declined 60 basis points for the full year on a comparable adjusted basis to 23.3%, again, reflecting inclusion of the slightly higher margin profile of the hosting offerings for one half of the year. As Barry noted, excluding the declining trajectory for the exit of hosting and logo lines of business from the 2023 results for DTM business expanded revenue by 7% compared to the prior year for 2024. We remain confident that the remaining data business will achieve mid single digit revenue growth rates on a comparable adjusted basis and low 20% adjusted EBITDA margin rate expectations consistent with what we shared during our December Investor Day presentation.

Turning now to our print businesses, promo and share Perlos fourth quarter revenue was $142 million, declining 7.3% on a comparable adjusted basis, driven by some demand softness during the fourth quarter relative to some of the seasonal uplift experienced during Q4 of 2022. On a reported basis, revenue declined 7.7% year over year. Adjusted EBITDA margins declined 240 basis points year over year to 16.9%, reflecting some of the lower volume impacts as well as higher year-over-year logistics costs, some of which resulted from our continuing transition of the promo production footprint towards less manufacturing sites. For the full year, promo revenue finished at $542 million, declining 1.5% year over year on a comparable adjusted basis in line with our expectations as we continue to work towards prioritizing stronger margin offerings within the portfolio. Inclusive of prior year divested business results from a revenue reflected a 3.8% decline on a reported basis. Adjusted EBITDA margins for the year were 14.9%, increasing 80 basis points versus 2022 and maintaining mid teen levels consistent with our stated expectations for 2024, we continue to expect low to mid single-digit comparable adjusted revenue declines with adjusted EBITDA margins remaining in the mid-teens.

Finally, as Barry noted, checks performance in both the fourth quarter and for full year 2023 exceeded expectations. For the fourth quarter, revenue increased just under $0.5 million from the prior year to $176 million. Fourth quarter adjusted EBITDA margins expanded 230 basis points to 44.8% as many of the seasonal logistics and other surcharges experienced in our cost of goods sold during Q4 of 2022 did not repeat Chegg's full year

2023 revenue was $721 million, declining 1.1% year over year, while adjusted EBITDA margins were 44.4%, expanding 40 basis points and consistent with our long-term expectations towards maintenance of mid 40s margins profile. These overall results helped to contribute to our overall EBITDA leverage across the enterprise. For 2024, we continue to expect low to mid single digit revenue declines for both the check and combined credit portfolio of offerings. Our investment in print-on-demand technology continues to be a strong contributor towards our expectation to maintain the margin profile of this business.

Turning now to our balance sheet and cash flow. We ended the year with a net debt level of $1.52 billion, down 83 million from $1.6 billion last year, consistent with our ongoing commitment to debt reduction as a top capital allocation priority for the enterprise, our net debt to adjusted EBITDA ratio was 3.6 times at the end of the year, also improving from the 3.8 times ratio a year ago. As we've noted, our long-term strategic target remains approximately three times leverage free cash flow, defined as cash provided by operating activities. Less capital expenditures was a very strong $63.5 million in the quarter, up from $37 million in the fourth quarter of 2022, driven by improved working capital, lower year-over-year capital spending and improved operating results, partially offset by higher interest and cash tax payments. This was a continuation of the quarterly sequential improvement trend we have seen since the second quarter of the year, noting that first quarter free cash flows are typically our seasonally lowest results. First quarter is impacted by annual employee compensation payments and other seasonality impacts such as annual license and maintenance payments. Thus, we would expect another negative free cash flow quarter for the first quarter of 2024. For the full year, free cash flow was $97.7 million, increasing $10.8 million from $86.9 million in 2022. This figure exceeded our revised guidance range, primarily as a result of better than expected working capital efficiency and lower cash restructuring spend related to North Star. This strong free cash flow performance, combined with adjusted EBITDA results above our forecasted midpoint, led to a leverage ratio better than our projections shared at our Investor Day. We were very pleased with the overall operating cash flows achieved during 2023 in our ability to continue our delevering path, consistent with our clear capital allocation priorities, our Board approved a regular quarterly dividend of $0.3 per share on all outstanding shares. The dividend will be payable on March fourth, 2024 to all shareholders of record as a market closing on February 20th, 2020. For Turning now to our 2024 guidance, I'm pleased to reaffirm the expectations for 2024 that we shared in early December. Keeping in mind, all figures are approximate and reflect the impact of our targeted business divestitures over the past 24 months, revenue of $2.14 billion to $2.18 billion, reflecting flat to 2% comparable adjusted growth versus 2023 adjusted EBITDA of 400 to $420 million, reflecting between 2% and 7% comparable adjusted growth, adjusted EPS of $3.10 to $3.40, reflecting 1% to 11% comparable adjusted growth and free cash flow of $60 million to $80 million. 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 $150 million, of which acquisition amortization is approximately $55 million, an average outstanding share count of $44.5 million shares and capital expenditures of approximately $100 million. And this guidance is subject to, among other things, prevailing macroeconomic conditions, including interest rates, labor, supply issues, inflation and the impact of other divestitures.

To summarize, we are very pleased with our fourth quarter and full year 2023 results. We look forward to continuing the momentum in 2024, focused on executing against a comprehensive North Star plan and continuing organic revenue growth, EBITDA expansion and strong free cash flow.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Lance Vitanza, TD Cowen.

Lance Vitanza - *TD Cowen - Analyst*

Thanks. Thanks, guys, and good. Good job on the quarter. You gave a lot of information about the the fourth quarter. So maybe just to sort of focus on the upcoming first quarter and Chip, I did hear your comments regarding the seasonality in terms of free cash flow but could you maybe talk about the impact of seasonality on the operating segments themselves in the typical seasonality that you'd expect from 4Q to 1Q and how you think that might translate into not only revenue performance in the quarter in the first quarter, but but sort of what we should be thinking about for margins.

And then I've got one other question as well.

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

Thanks, Lance. So keeping in mind, we don't guide quarterly. I will try our best to help you because I realize we have a lot going on, especially with rolling in more forecasted exits this year. So let me start at the highest level and then I can give you a little bit of color by segment.

So the easiest way to think about it is the seasonality change from the fourth quarter. We just reported into what to expect in the first quarter. And so if you look over the last few years, we typically would step down about 3% in total revenues from the fourth quarter into the first. And so that would be how I would think about the overall baseline resetting to reflect the seasonality and the most material seasonality item we have is within the promo business, which has tax forms and other seasonal items. So I would start out with my guidance. Again, we don't guide directly, but my my assumption to you would be take that fourth quarter revenue result haircut by about 3% to get to kind of the baseline starting point for the year. And then often that it's a question of how much growth will we drive relative to our full year guidance range. So that will be towards the lower end of our zero to two range. So at the highest level, and I think a haircut of 2% off of what we just did in the fourth quarter is a solid place to reflect the enterprise and that'll help factor in the seasonal change in the data business. The data business isn't necessarily seasonal, as we've said, but it's got the campaign oriented some flexibility across the quarters. And of course, we had a lower quarter in the fourth quarter. So using that haircut, now that math I just gave you, you'll capture the typical seasonality of the promo business as well as be able to capture what we think would be kind of the DTM business picking back up in the first quarter as well as the impact of the exits we would anticipate. And as you think about the margin profile of that business, what I would say is with that math, you'll get to what should be our lowest volume quarter of the year. And so obviously, if you think about the corporate cost structure or the mix across the portfolio, you're spreading somewhat of fixed costs across the lowest volume periods. So my guidance would be to take the Q4 ending EBITDA margin rate and drop it by about 200 bps here in the first quarter to set you up for the roughly the EBITDA margin rate. And then I think from an EPS perspective, you can take all the figures I guided and consider those relatively consistent across the year relatively linear, and you can get to that point. And so I think that anchors you guys on the right starting point for the year. And as I said, that would represent the lower mark of the year around revenues as well as EBITDA. So revenues we would expect to pick up as the year goes on and other seasonal aspects come in. And then of course, as we execute North Star, we bring in more more of our both our revenue and cost initiatives. Ebitda should grow throughout the year, working its way towards our guidance range. So hopefully, that's helpful in terms of giving you the overall trajectory color as well as a bit across the segments.

Lance Vitanza - *TD Cowen - Analyst*

Very helpful. Thank you. And then just a final question for Barry. Regarding the Payments segment, we noticed the Michael Reed departure. Could you remind me, was he one of the guys that you brought into Deluxe as part of the new wave of leadership. And in any case, could you comment on what why he left who's taking over for him? Did the transition? I know you still serving as I believe some or the plan is for him to be an adviser to the company, but did the transition perhaps impact results in the fourth quarter? Might it impact results in 2024 and so forth.

Barry Mccarthy - *Deluxe Corp - President and Chief Executive Officer*

Lance, the first thing I'd want to say is to highlight the great performance in the merchant business. That business continues to outperform our expectation and you saw the great performance in Q4 as a result of the big win we had announced earlier. I think it's real evidence of the cross-sell ability of the company and help grow that business and the B2B side of the business where increasingly moving that business towards the software as a service aspect of the business. And we are investing there while we are continuing to win market share on the lockbox side of the business. And <unk>, the lockbox business was a little bit softer this period, and we didn't have some of the recurring things that we saw in Q4 of last year. I'm very grateful for all the great things that Mike did to help get the company and the B2B business moving in the right direction and he is continuing as an advisor to help us on the transition that business is reporting to me today while we find a successor and specifically, we're looking to it sort of add more capabilities to the team around the growth area, which is software as a service. So we're grateful for all that Mike did, and we are really optimistic about the future of that business and payments in general.

Lance Vitanza - *TD Cowen - Analyst*

Thanks. And maybe just one quick follow-up if I could. Regarding lockbox. Would you describe I mean, I think in the past, right? You've described that business as goes in somewhat of a long-term secular decline. And I'm just wondering, I mean, should we expect I shouldn't we expect that business to kind of be industry wide that business to be sort of down mid-single digits from here on out. And I'm wondering when you when you talk about a little bit of softness, was it softness relative to that? Or do I have it wrong? And that's a business that that in a better period would would be flat or perhaps even growing?

Barry Mccarthy - *Deluxe Corp - President and Chief Executive Officer*

So first of all, I think it's important to talk about the complexion of the B2B business in total, and it's roughly split between the lockbox business and the the growing the software as a service business.

And so on the lock box side of the business, yes, there are secular headwinds in that space. But what you've seen us do over the last couple of years is that we have significant market share gains or we have win new business that helps mitigate the decline there. And we've had some very significant wins there.

And then you saw of course, in the fourth quarter of last year where we took on volume from a competitor that had an outage and that helped us deliver a really terrific result in Q4 of last year. We have got a big pipeline, and we think we'll continue to add clients on a lockbox to provide some stability. But to be clear, we're focusing more and more on the software as a service side of the business because we see that as the future, we had a successful launch of our new receivables product has got an opportunity next week to be in front of hundreds of customers at our annual customer event where we'll be sharing more details, we expect to build more leads and help that part of that side of the business accelerate?

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

I would just add that while you're right, Lance, that the lockbox business in aggregate is generally in decline like the rest of the paper parts of our business. We continue ourselves to innovate in different ways to move it to more digital. We're really focused on the efficiency of that business and improving the margins and profitability which, as you heard in our prepared remarks, we did a lot of that this year through site consolidation and other efficiency initiatives. Even despite the softness, the volume challenges we had we were able to expand margins there, which is really a testament to the opportunity we have to not only continue to look for opportunities to partner with customers and take on more volume, but to continue to run those operations in a more efficient way and expand EBITDA margins for that business as well as B2B in totality.

Lance Vitanza - *TD Cowen - Analyst*

Super helpful. Thanks, guys. Congrats again.

Operator

Your next question comes from the line of Charlie Strauzer from CJS. Please go ahead.

Charlie Stauzer - *CJS Securities - Analyst*

Good morning. Basically, my question's on just if we could focus a little bit on the free cash flow guidance, the $60 million to $80 million you had provided there, they're coming off of a pretty strong year in '23. Looking at the guidance, what are the drivers and assumptions built into that guidance range? And then what could potentially impede you from exceeding that range?

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

Yes. Thank you, Charlie, and good morning. Thank you for joining us. I think I want to first acknowledge the obvious that I did lower that free cash flow guidance range on the Q3 call from our original full-year guidance of $80 million to $100 million for 2023, down to $60 million to $80 million. And I did that based off two factors. As you'll recall, we did that based off where we were year to date through the third quarter as well as through the introduction of NorthStar, adding more potential cash restructuring charges as we set the Company up, it was the responsible thing to due to reset that range at the time now, however, we didn't change our internal focus on running our cash flow and continuing to optimize things across the portfolio. So when you look at our final result coming in way ahead of where I reset guidance to. That was really a function of the incredible work the team's done to really work on working capital efficiency. I was very impressed with how the team worked inventory down as the year progressed. As an example, as soon as we got through the ERP upgrade, the team worked very hard working through all of the challenges we had dealt with around inventory starting back in 2021. Do you think about supply chain disruptions, inflation as well as the ERP project?

We finally got the chance to work through and really bring that down, which was a great working capital efficiency for us. We were also very efficient on our DSO and other levers. So I do want to acknowledge that it's been a great thing and I'm very pleased with what the team did. As I look ahead, I'm holding the guidance range at $60 million to $80 million for this year, consistent what I did before. And again across the two year period now with the beat in 2023, that's a net positive over a two year period, we're driving more free cash flow. But as I look ahead right now, in this moment, after having just come off a really strong fourth quarter, I walk it down this way, I think about the 98 we just delivered in 2023, we have to off the top take off estimated impacts from the business exits, which on a cash basis is roughly $15 million. I then got to look at that working capital picture I just took you through.

And while it was a fantastic source of cash in 2023 at this point in time, I'm planning it to be more of a net neutral, not an inflow on an outflow on the lower end of my range. It would be an outflow. But on the upper end, it's neutral. And I think there's an opportunity to maybe drive more. So just set that there.

And then lastly, we do expect as we've said before to spend a little bit less cash restructuring, call it roughly 10. But again, it could be a range. We don't have perfect visibility to restructuring spend as you would anticipate through the kind of onetime nature of it. But right now in my construction, I'm assuming it's about $10 million lower. So that leaves room for the operations to still improve to get us into that range. And my view would be give us time in the year to start to execute and see how we do. And I think the levers to drive it upwards would be continued improvement around working capital as well as potentially lower restructuring charges. And then the lower end of the range that we've set here, I think is a very responsible place to be.

And the last thing I'll just call out, as you know, again, I just want to reiterate across that two year period, how we're ahead of where we thought we'd be in December. And so we ended the year at 3.6 times leverage. In December, we estimated that would be three, eight getting to three, seven by the end of this year, we're already at three six. So very pleased with where we are on that journey. If you've taken the midpoint of our free cash flow range, or taken the midpoint of our EBITDA range. That would suggest we're going to end this year between 3.6, 3.5, depending on the route. And so again, really pleased with that progress getting ahead of a critical strategic priority for us.

Charlie Stauzer - *CJS Securities - Analyst*

It's all great. And just a segue to the balance sheet. If rates were to come down or are there other opportunities potentially to repay some of the debt or do some swaps were ever to reduce durations expense?

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

Yes. So keep in mind right now with the swaps we did throughout the last five quarters, effectively, we're at approximately 75% fixed rate, which removes a lot of the current volatility in the markets. As we plan this year, we are planning no change in the interest rates. We, of course, are remaining very cognizant of what the Fed is doing and staying really in tune with what their updates are. But the way we put our guidance out, we're assuming no change in the rates. And obviously, if they start to come down, that would be a reason why we would go into the lower end of our 120 to 125 range. We don't see them going up.

The reason we would drift upwards would be if free cash flow timing across the year was a little bit more back-end loaded and we had to draw down on revolving debt earlier in the year, just drive more internal cash costs to your direct question about just the refinancing side know, what I would say is we still sit here with ample time. So our next major maturity on our credit facility, our term loan A. and our revolver is not until the end of June of 2026. We will obviously not let that debt go current. So that gives us effectively the better part of the year to just start to get educated on what the market situation is, see what our alternatives are and really leverage our bank group for advice and guidance and a perspective on what we should do. So we don't have a crystal ball on what interest rates will be come that period of time a year from now or what the market will look like from a capital markets perspective. But rest assured, we're going to get working on it early so that we addressed that well ahead of that debt becoming current and obviously, the hope would be that we can do that in a way that our weighted average interest rate cost comes down. But if not, we'll continue to delever to bring the debt balance down and continue to bring our debt costs down over time.

Charlie Stauzer - *CJS Securities - Analyst*

Thanks, lot, and thanks for taking my questions.

Operator

(Operator Instructions) Marc Riddick, Sidoti.

Marc Riddick - *Sidoti & Company - Analyst*

Good morning, everyone. So I wanted to you actually covered a great deal of where I was going to go with with the last answer. So I do appreciate that. I was just wondering, curious as to maybe if you could give us a quick reminder, an update as to the timing of some of the tech spend or or or any if there's anything lumpy that we should be thinking about for the first half of the year.

Barry Mccarthy - *Deluxe Corp - President and Chief Executive Officer*

As far as the spending it, let me just start by giving a sort of framework on how 24 is different than the last couple of years. So we have completed all of our investments in modernizing our infrastructure. So you'll recall last year at this time, we went live with our ERP, which was the last piece of that infrastructure spending. So we are complete with that now fully modernized all of our core operating systems moving them into the cloud. So this year we are spending less on those infrastructure items and focusing more on investing in IT, the businesses where we can generate growth, specifically in payments and data. So while Chip said that we expect to slow down the spending a bit. We also expect slightly less on restructuring expense. The I think the big point to note here is that the spending is shifting towards things that are going to drive more growth rather than simply stabilizing and improving our and modernizing our infrastructure. Do you want to add?

William Zint - *Deluxe Corp - Chief Financial Officer, Senior Vice President*

Yes, Mark, I think I think your question, there's multiple layers to it. So I'll try my best to predict where you're going and just clarify if I'm not getting it there. But on the CapEx side, we guided $100 million as Barry just said, we've really moved through obviously, the ERP. will move mostly through the site consolidation. So what you're really starting to anchor on true product dev software development so I don't really think that $100 million is going to be very lumpy. I think it can be relatively linear across the period. You're going to see us continue to invest on the right high return growth initiatives there. If your question is getting towards more of the restructuring charges, Barry alluded to a little bit last year our overall restructuring charges were $90 million. And keep in mind that was doing a number of things ERP at the front end of the year, site consolidation as well. The lockbox optimization in the middle and then the launch of NorthStar courts. The and as we've said before, we still believe that's kind of the peak of overall restructuring spending for us start to see it coming down, I could see the range of restructuring spending this year somewhere between $60 million to $80 million. Again, you can't really perfectly estimated with the nature of it, but that's really all North Star. And so in the $90 million we spent last year, roughly $45 million of that was North Star related. We've guided to you guys that overall North Star spend would be between 115 to 135 or so spending around $60 million to $80 million this year puts us near near job there through the end of this year. With obviously the remaining charges to occur in the early 2025 timeframe. So hopefully that overall perspective gives you what you're looking for.

Marc Riddick - *Sidoti & Company - Analyst*

No, that's perfect. I appreciate that. Thank you. And then I know it's early, but I was wondering if it was too early to see if there was any insights or any feedback you're receiving from clients as far as planning or or if there's anything that maybe is has changed as far as general views as far as your client activity since the Investor Day? Thanks.

Barry Mccarthy - *Deluxe Corp - President and Chief Executive Officer*

So a couple of top-line things for there for you there. And we continue to be pleased with how our pipeline is expanding across all of our businesses. And we're continuing to see benefit from our ability to cross-sell the whole One Deluxe model that we've talked about previously. I think we're also seeing it at decent consumer spending, and that's obviously early. But so far as you know, early indications seem encouraging, and we've got pretty good line of sight in the CDN business because we have understanding of how clients will be rolling out their programs across the rest of the year. And so what I would tell you is we think what we're seeing today is very consistent with what we shared at Investor Day, which gives us confidence to reaffirm the guidance we provided you back in December, and we believe we're going to have a really solid year and moving in our transformation forward.

Marc Riddick - *Sidoti & Company - Analyst*

Great. Thank you very much.

Operator

We have no further questions in our queue at this time. I will turn the call back to Brian Anderson for closing remarks.

Brian Anderson - *Deluxe Corp - Vice President, Strategy and Investor Relations*

Thank you, Krista. Before we conclude, I'd like to share that management will be participating at the JPMorgan global high yield and leveraged finance conference on February 26th and 27th at the Wolfe FinTech Forum on March 13th and 14th during the quarter. Thanks again for joining us today, and we look forward to speaking with you all again in May as we share our first quarter 2024 results.

Operator

This concludes today's conference call. Thank you for your participation, and you may now.
