

01-May-2024

# Deluxe Corp. (DLX)

Q1 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Brian Anderson**

*Vice President-Strategy & Investor Relations, Deluxe Corp.*

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

---

## OTHER PARTICIPANTS

**Kartik Mehta**

*Analyst, Northcoast Research Partners LLC*

**Jonnathan Navarrete**

*Analyst, TD Cowen*

**Charles Strauzer**

*Analyst, CJS Securities, Inc.*

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

---

## MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

---

**Brian Anderson**

*Vice President-Strategy & Investor Relations, Deluxe Corp.*

...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 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 this afternoon and our Form 10-K for the year ended December 31, 2023, 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 and EBITDA margin, adjusted and comparable 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 reconciliation of these measures to the most comparable measures under US GAAP. Within the materials, we are also providing reconciliations of GAAP EPS to comparable adjusted EPS, which may assist with your modeling.

Finally, as an important additional note, this evening's presentation reflects results aligned to our updated segment reporting structure, as outlined in our filings concurrent with our December Investor Day presentation

and today's 8-K filing, which provides unaudited recast business segment revenue and adjusted EBITDA information for both 2022 and 2023, including quarterly details for 2023.

Updated operating segment figures are reported excluding any results from exited businesses for the respective periods, with results from such activities reported separately within the filed materials and detailed further within our segment information and reconciliation of GAAP to non-GAAP measures slide in the appendix of today's presentation material. Chip will add some detail regarding these updates during his comments this evening.

And with that, I'll turn it over to Barry.

---

## Barry C. McCarthy

*President, Chief Executive Officer & Director, Deluxe Corp.*

Thanks, Brian, and good evening, everyone. Two things before I get started. First, today I'll be discussing comparable adjusted results for the quarter, which we believe best reflect our ongoing business performance. Later, Chip will discuss our reported consolidated and comparable adjusted figures to give even more perspective. Second, as Brian just mentioned, this is the first time we're reporting in our new segments. We'll also be happy to have follow-up conversations and answer questions that you may have on these updates.

We think this new segmentation provides better insight into the company and our future. Our strategy is clear, invest on relationships, trust and brand built in our Print business to grow the Payments and Data businesses. Very simply, Payments and Data are our growth drivers and Print is our cash generator, helping drive payments and data success.

On this chart, you can see print was 57% of revenue, with payments and data combined delivering 43% for the quarter. With Q1 combined Payments and Data revenue of \$226 million, growing 8.1% with margins of 22%, this is an attractive portfolio of businesses that we think is often overlooked. Our new operating segments should help highlight these businesses. Over the longer term, we expect the combined Payments and Data businesses to reach revenue parity with Print and expect to provide updates annually.

Overall, I'm very pleased to report our strong start to 2024. In the first quarter, we delivered growth across every key metric, revenue, adjusted EBITDA, EPS and margin. Our adjusted EBITDA expanded at a significantly faster rate than revenue, demonstrating the operating leverage we have now purposely built into the company. We were also particularly pleased with the significant year-over-year improvement in cash flow. As a result of the strong performance, we're raising our 2024 cash flow guidance and affirming all other full-year operating metrics.

You will recall accelerated cash flow and profit growth are the key tenets of our overall strategy and North Star program, both of which we outlined during our December Investor Day. We believe the Q1 performance demonstrates our progress. As a reminder, our North Star goal is to unlock \$80 million of incremental comparable adjusted EBITDA and \$100 million of incremental free cash flow by 2026. As of the end of Q1, we're making progress on all 12 North Star work streams shown here.

Initiatives comprising roughly two-thirds of our targeted \$130 million of overall EBITDA improvements are now moving to the execution stage. Recall that the \$130 million is aligned to our net \$80 million incremental earnings target after factoring for expected secular declines through 2026. Benefit realization will phase in during the remainder of this year and throughout 2025. We expect to see in-year benefits accelerate and remain well-positioned to achieve our goals.

Now, before reviewing our first quarter highlights, I'd like to provide a few comments on the macro economy and key business drivers. First, as we discuss on each of these calls, Deluxe actively monitors trends surrounding overall domestic consumer sentiment, including discretionary spending. We review economic information from many providers, including the Federal Reserve, card associations and more.

Looking at this information alongside our own available data, while it appears consumers still feel inflation pressure, some of the unfavorable spending dynamics between less and more discretionary categories present a year ago appear to have stabilized a bit. You see this reflected in our Merchant Services performance. Second, our business continues to benefit from our overall One Deluxe go-to-market approach, as our growth during the first quarter included new customer wins across each of our reporting segments.

Third, trust continues to be a key driver for the company, and as we have noted, is one of our core values. We were honored to be recognized for the third consecutive year as one of America's Most Trustworthy Companies by Newsweek. This ongoing recognition is testament to the quality both of our products and services and the commitment of all Deluxers delivering every day for customers.

Now to provide some additional details about our first quarter performance. For the quarter, net of business exits, revenue was \$529 million, up 1.2% or just over \$6 million year-over-year. The combined growth in our Payments and Data businesses more than offset the single-digit secular declines in Print, consistent with our strategy.

Importantly, the company is now in its fourth consecutive year of delivering organic revenue growth, demonstrating that our shift towards a payments and data company is working. Total adjusted EBITDA dollars increased 7% from the first quarter of 2023 to \$97 million, continuing to reflect robust operating leverage across our portfolio, as noted in my opening comments.

Adjusted EBITDA margins finished the quarter at 18.3%, reflecting an expansion of full 100 basis points versus the prior year. We remain particularly pleased with the results, helping to demonstrate our progress around continued optimization of our operating expense base and expansion of adjusted EBITDA levels outlined within our North Star execution plans.

Moving on to some segment highlights, beginning with Merchant Services. For the quarter, Merchant segment revenue grew 8.3%, while adjusted EBITDA dollars grew 16.3% and margins expanded 150 basis points from 2023 on strong processing volumes. We're pleased with the strong performance of this business as we approach the third anniversary of the acquisition on June 1. Since the combination, revenue, profit, operating leverage and margin have all materially accelerated, further demonstrating the power of our One Deluxe model.

We will continue to leverage our strong bank partner relationships, increasing penetration with integrated software vendors, or ISVs, and direct selling resources. Additionally, we continue to invest responsibly in our differentiated service capabilities, technology and feature enhancements.

Moving now to results within the B2B Payments segment. While we saw year-over-year declines of 7.7% for B2B, the overall results were largely in line with our internal expectations for the first quarter. As we have shared on previous calls, we're transitioning to a Software-as-a-Service or a SaaS model, reducing our dependency on onetime nonrecurring revenue like software licenses and check imaging devices. This move to SaaS will also reduce our dependence on core transaction processing revenue over time. This means we are deliberately reducing focus on selling onetime nonrecurring products. As we anticipated and as indicated in our first quarter results, the short-term impact has been less revenue, but improved margins.

During the first quarter, B2B margins expanded 120 basis points, resulting in modest EBITDA impacts despite the drop in revenue. Additionally, we remain encouraged by our growing pipeline, demonstrating strong demand for our newest products. While we shift our focus to SaaS, we will continue to focus on efficiencies across lockbox, leveraging recent site consolidations and other operating improvements.

We have continued to win new deals in the lockbox business, helping to offset secular volume pressure and fund the transition to SaaS products. We have several high-quality deals currently in the implementation phase. And despite some customer delays, we expect these deals to go live later this year. To be clear, we do expect to see revenue, profit and margin grow simultaneously as the shift towards SaaS unfolds over the next several quarters. We also expect to announce a new leader for this segment in the coming weeks.

Moving now to Data Solutions, which delivered particularly strong first quarter results. The core data-driven marketing, or DDM business, had a solid quarter, driving segment revenue growth of 34.5% and adjusted EBITDA growth of 46% during the period. These results reflect continued strong demand for customer acquisition marketing activities across our expansive base of core FI partners.

Additionally, Data continues to broaden its portfolio of clients, extending to other attractive non-financial service verticals, including telecom, utility and smart home technology providers. As we've discussed previously, quarter-to-quarter lumpiness results from a campaign-oriented nature of the DDM business, with customers often shifting planned marketing expense between quarters. Accordingly, we would not expect the levels of growth reported during the first quarter to recur over the balance of the year.

Shifting finally to our Print segment, consistent with our expectations and prior guidance, the Print business experienced a revenue decline of just over 3% to \$303 million, while adjusted EBITDA margins held at 30%, in line with our outlook and typical first quarter seasonality. Within the segment, legacy check revenues remained roughly flat during the quarter at just over \$178 million. Promo revenue declines were consistent with our expectations for the first quarter, which typically lags sequentially from Q4 holiday-related seasonal strength. Overall, we continue to manage the Print portfolio to maximize cash flow through operating efficiencies, pricing actions and responsible investments.

To summarize, our overall first quarter results speak to our transformation and North Star progress. This ongoing performance improvement provides us with a great foundation to deliver our 2024 revenue growth and EBITDA expansion goals. While work remains, our consistent and sustained pace of progress create even greater confidence in our bright future as a payments and data company.

Finally, before passing this to Chip, I want to acknowledge and thank all fellow Deluxers who work hard every day to deliver these results for our customers and investors.

With that, I'll turn it over to Chip.

---

## Chip Zint

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

Thank you, Barry, and good evening, everyone. As Barry noted in his opening, we were very pleased with our first quarter progress, particularly our better-than-anticipated cash flow generation and our strong comparable adjusted EBITDA growth during the period.

As Brian pointed out upfront, our updated segment reporting reflects the removal of all business exit impacts to both ongoing and recasted historical operating segment financials. This will allow for a clean view of our segment

performance over time, net of any impacts from divested lines of business. The combined impact of the business exits can be seen separately within the historical results of today's 8-K filing, as well as within the enterprise level non-GAAP reconciliations found within the appendix of today's materials and in our past filings.

Importantly, 2024 operating segment results will continue to be reported, excluding any impacts from residual payroll business results that may be realized as customer migrations take place over the course of the year. This is consistent with the conversion agreements we executed during the second half of 2023 as we made the decision to exit these businesses. As a result, our total enterprise 2024 results will now incorporate a comparable adjusted revenue figure in addition to comparable adjusted EBITDA and EPS to remove any payroll business impacts incurred from both the current and prior-year results.

Now with that out of the way, I'll begin today with a bit of additional color around our consolidated highlights for the period, before moving on to the segment results, our balance sheet and cash flow progress, and updated 2024 guidance.

For the quarter, on a reported basis, we posted total revenue of \$535 million, down 1.9%, driven by the impact of our prior-year exits, but increasing 1.2% year-over-year on a comparable adjusted basis. We reported GAAP net income of \$10.8 million or \$0.24 per share for the period, improving from \$2.8 million or \$0.06 per share in the first quarter of 2023. This increase was driven by improved operating results, particularly lower SG&A expense, as well as gains relating to the business exits during the period.

Comparable adjusted EBITDA was \$96.9 million, up \$6.3 million or 7% versus the first quarter of last year. Comparable adjusted EBITDA margins were 18.3%, improving 100 basis points versus the first quarter of 2023. Q1 comparable adjusted EPS came in at \$0.72, improving from \$0.69 in 2023, primarily driven by the improved operating income results previously noted.

Now turning to our operating segment details, beginning with the Merchant Services business. The Merchant business grew first quarter revenue by 8.3% year-over-year to \$96.5 million, reflecting strong Q1 performance, as Barry noted. Segment adjusted EBITDA finished at \$21.4 million, improving \$3 million or 16.3% versus the prior year, with margins expanding 150 basis points to 22.2% of revenue, mainly resulting from the strong top line growth and our ongoing profit enhancement initiatives.

In addition to the highlights Barry covered, the Merchant business also benefited from robust seasonal volumes within the government vertical during the quarter and remains well-positioned to continue momentum towards our mid- to high-single-digit revenue growth and low-20% adjusted EBITDA long-term outlook.

Turning to B2B Payments. As a reminder, our B2B segment includes our treasury management offerings, featuring both our R360 software and lockbox remittance offerings on the AR side, in addition to our eCheck and DPX AP disbursement solutions. Results from RDC and other scanner hardware and our fraud and security suite of offerings are also included within this segment.

For the first quarter, B2B segment revenues finished at \$69.4 million, down from \$75.2 million during 2023, consistent with our expectation for Q1 performance, while overall remittance volumes remained fairly stable on a sequential basis during the quarter, the balance of the business was unable to fully offset some nonrecurring hardware sales from 2023 and other onetime items, resulting in an overall 7.7% decline year-over-year.

Despite the revenue headwinds within the segment, adjusted EBITDA margins continued to improve consistent with the focus on operational efficiencies to which we have alluded on our prior two quarterly earnings calls.

Margins improved by 120 basis points to 19.2% during the quarter, with adjusted EBITDA dollars declining 1.5% from 2023 to finish at \$13.3 million.

Despite the expected soft start to the year, we anticipate flat to low-single-digit full-year revenue growth as we transition to recurring revenues, as Barry discussed. Overall EBITDA margins are expected to improve to the low- to mid-20% range over time.

Moving on to Data Solutions. This segment rebounded very strongly on both a year-over-year and sequential basis, delivering strong results for the first quarter. Data revenues finished at \$59.7 million for the quarter, reflecting a sequential increase of more than \$15.5 million from its seasonally lowest fourth quarter, achieving overall growth of 34.5% versus Q1 of 2023.

As we noted a quarter ago, the data-driven marketing business saw several customers accelerate campaigns into the fourth quarter of 2022, pulling planned data spend from the prior-year first quarter comparable results. As Barry referenced, the quarter-to-quarter volatility of campaign timing within this business can make sequential growth rates difficult to predict with great precision.

We continue to suggest averaging the two to three most recent quarters' actual results for both revenue and EBITDA dollars as a good barometer for ongoing segment-level financial performance over the balance of the year. We remain very encouraged by the recent performance of this segment and believe our mid- to high-single-digit longer-term growth guidance remains appropriate from a full-year perspective.

Data's adjusted EBITDA margins for the quarter improved 200 basis points to 25%, again reflecting campaign timing impacts within the Q1 compare, as referenced previously. Adjusted EBITDA for the quarter was \$14.9 million, up 46.1% from the prior-year period. We continue to have strong confidence in the long-term low- to mid-20% adjusted EBITDA rate guidance for this segment.

Turning now to our Print businesses. Print segment first quarter revenue was \$303.4 million, declining 3.4% on a year-over-year basis. This decline was in line with our secular unit decline expectations across this business, with the legacy promotional solutions revenue driving nearly all the full segment decline as we continue to prioritize stronger margin printed forms and other business essentials.

Adjusted EBITDA margins declined 30 basis points year-over-year to 30%, continuing to reflect our operating expense discipline and efficiency across cost of goods sold inputs in particular. Consistent with our long-term outlook, for the balance of 2024, we continue to expect to see low- to mid-single-digit revenue declines across the Print segment, with adjusted EBITDA margins remaining in the low-30s.

Turning now to our balance sheet and cash flow. We ended the first quarter with a net debt level of \$1.54 billion, modestly up from our 2023 year-end level while remaining materially lower than the \$1.66 billion mark at the end of Q1 of the prior 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 3.7 times at the end of the quarter, also increasing minimally from the 3.6 times reported at year-end. As we've noted, our long-term strategic target remains approximately 3 times leverage, and the first quarter typically reflects our seasonally lowest cash flow result, which tends to drive slight increases to our reporting leverage ratio relative to the balance of the year.



Free cash flow, defined as cash provided by operating activities less capital expenditures, finished at \$6.2 million for the quarter, improving by \$38 million from the negative results reported during the first quarter of 2023, driven by continued strong working capital efficiency, in addition to reduced year-over-year CapEx spend, lower cash incentive payments and improved operating results. This was a continuation of the stronger-than-anticipated operating cash flow results we have reported since the second quarter of last year, noting that we guided to an expected negative first quarter free cash flow result on our prior earnings call.

We continue to expect the first quarter to reflect our seasonally lowest cash flow results, inclusive of payments for annual license and maintenance expenditures, employee compensation payments and other items. As a result of this first quarter performance and our updated forecast, we are raising our full-year free cash flow guidance range, as Barry alluded within his opening remarks. We remain very pleased with our overall operating cash flow generation during recent quarters and our ability to continue our de-levering path consistent with our clear capital allocation priorities.

As an additional note regarding our overall capital structure, I wanted to take a moment to provide a bit of additional color as to the status of our present debt maturities summarized on the current slide. As we announced during the first quarter, in mid-March, we entered into an accounts receivable securitization facility with a capacity of up to \$80 million. Through the first quarter, we have drawn approximately \$65 million on the facility, directing these funds toward prepayments against the balance of our 2024 required quarterly term loan amortizations.

This AR facility provides us two primary benefits relative to our prior capital structure. First, the 36-month agreement terminates in the first quarter of 2027, and as such, acts to shift out as much as \$80 million of maturities to the column labeled 2027 plus on the current slide. Secondly, the base rate plus 140 basis points of interest on the new facility provides rate advantage borrowing against the balance of our 2026 variable rate debt.

As shown here, our current revolving credit and term loan facilities carry June of 2026 maturities, while our 8% bonds mature in 2029. We remain very comfortable with our present levels of available liquidity and look forward to providing additional updates on any capital structure developments going forward.

Before turning to guidance, consistent with past quarters, our board approved a regular quarterly dividend of \$0.30 per share on all outstanding shares. The dividend will be payable on June 3, 2024 to all shareholders of record as of market closing on May 20, 2024.

I'm pleased to update our 2024 guidance reaffirming our estimates from our December Investor Day and raising our free cash flow range this evening. As Barry noted previously, we continue to make strong progress in line with our original expectations across all key North Star initiatives. Forecasted realization of the implemented work stream impacts noted in Barry's comments are fully reflected within our existing 2024 guidance ranges.

Our updated guidance figures are as follows, keeping in mind all figures are approximate and reflect the impact of business exits over the past 12 months. Revenue of \$2.14 billion to \$2.18 billion, reflecting flat to 2% comparable adjusted growth versus 2023. Adjusted EBITDA of \$400 million to \$420 million, reflecting between 2% and 7% comparable adjusted growth. Adjusted EPS of \$3.10 to \$3.40, reflecting 3% to 13% comparable adjusted growth. And free cash flow of \$80 million to \$100 million, increased from our prior guidance range of \$60 million to \$80 million.

Finally, 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. 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 the first quarter 2024 performance and resulting increased cash flow forecast. We look forward to continuing the growth and operating leverage momentum throughout the balance of the year, while remaining focused on executing against our broad North Star initiatives and continuing our organic revenue growth, EBITDA expansion and deleveraging journey.

Operator, we are now ready to take questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Kartik Mehta from Northcoast Research. Please go ahead.

**Kartik Mehta**

*Analyst, Northcoast Research Partners LLC*

Q

Thank you. Good evening. Barry, on the Merchant Services side of the business, you saw pretty good growth. And I'm wondering as you look at your business and try to compare it with the industry or kind of the credit card association numbers out there, what type of growth would you anticipate relative to the growth that the associations would see?

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

A

So, Kartik, thanks for being here. I would tell you that we're pretty – we're very pleased with the growth that we're seeing in our Merchant business. As you know, the business that we have there is very focused in good secular growth categories, and we think that we're actually outperforming the market in those categories. If you look at the card association numbers, they also include volume growth in very, very high-growth categories that often also include higher risk.

Our portfolio is a very clean, healthy portfolio that produces quality results over time, and we're very pleased by that performance. And you know from when we acquired the business, it was a low- to mid-single-digit grower and we've expanded that, and we have a great guide for the year that we think really talks about and shows the power of bringing that business inside of Deluxe and our One Deluxe go-to-market model where we can bring more products and services to more customers and leverage the trust that customers have in us now expanded across a bigger portfolio of businesses.

**Kartik Mehta**

*Analyst, Northcoast Research Partners LLC*

Q

Chip, as you look at the drivers for free cash flow and the improvement that you hope that you're going to see in 2024 and the raised guidance, if you look at those factors, are there other factors that you look at where you can see maybe an opportunity to improve and the free cash flow guidance be maybe on the higher end or improve even more?

## Chip Zint

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah, I appreciate the question. So I'll tell you, the strong Q1 really was once again a narrative of really good working capital efficiency. You may recall, in the fourth quarter, we surprised to the positive based on extremely strong working capital. That left me hesitant to change my existing guidance range coming into the year. And once again here in the first quarter, the team managed the working capital very well and we really pulled forward cash to deliver a solid number, nearly \$40 million better than a year ago.

Given it is working capital, I have to be mindful that some of it could be timing and a pull forward of future quarters. So my view is roughly half of that sticks for the year at this moment in time. And at this point, we need to continue to execute and see how the year goes on. And for sure, there's an opportunity to over-improve with execution and other levers as the year goes on. But at this moment in time, I look at that strong start as a good sign of what's to come. We raised the \$20 million range for now, and then we'll see how we execute as the year goes on.

The other point would be I do anticipate some of that cash flow that occurred in the first quarter being a slight pull forward from the second. I do expect the first half of the year to be significantly better than it was a year ago, but I'm not really sure exactly what it means from a Q2 number specifically compared to last year. But overall, really pleased with the performance and great opportunity to raise the guidance here at the start of the year.

## Kartik Mehta

*Analyst, Northcoast Research Partners LLC*

Q

And then just one last question, Chip. Last quarter, you gave a very good overview of maybe how the quarters were going to play out from an EPS standpoint. And I'm wondering if you could provide just maybe cadence or your expectations as we go through the year.

## Chip Zint

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah, maybe I'll start at the top. I know you asked EPS. Let me just start at the top. I think the one thing – so first of all, really pleased with the Data business and the 35% growth rate that they posted, just incredible. Obviously, we're not expecting that to continue here in the second quarter.

In my prepared remarks, I specifically pointed you guys to look at the average of the previous two to three quarters, specifically three in this case because revenue was roughly \$65 million in the third quarter of last year, \$45 million in the fourth and then \$60 million here in the first. And so if you average that out, I think that's a good indicator for where Data revenue will be in the second quarter.

Now, Data is lapping some tough comps, especially in the second and the third quarter. So if you think about the sequence of the top line, I think really getting Data right is the key piece on the board to land on the right revenue starting point.

Flowing that down through towards profitability, I don't really think I have great guidance for you other than we would expect that as the year goes on, the benefit from North Star, as Barry mentioned, should grow over time, at least until we get to the fourth quarter where we lap kind of the big in-year benefit from a year ago. So I would expect margins to be pretty solid over the next few quarters, growing overall dollars and it should flow to reasonable EPS numbers here in the next couple of quarters.

**Kartik Mehta**

*Analyst, Northcoast Research Partners LLC*

Q

Perfect. Thank you very much. I appreciate it.

**Operator:** Your next question comes from the line of Jonnathan Navarrete from TD Cowen, Inc. Jonnathan, please go ahead.

**Jonnathan Navarrete**

*Analyst, TD Cowen*

Q

Hey, guys. Jonnathan on Lance. Nice job on the quarter and nice job on free cash flow as well. I know you said this was largely driven by working capital. So can you maybe walk us through the puts and takes? Like, what items in working capital drove the positive free cash flow?

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah. Sure, Jonnathan. It was mostly from an AR perspective, so very pleased with where our DSO landed on the AR side. By my calculation, the DSO was at 28 days at the end in the quarter with a substantial improvement from where it was a year ago. Now, you got to keep in mind, a year ago we had just gone live on our ERP upgrade. So, that did impact our overall AR balance a bit and so was definitely one of the reasons why AR could be so solid. But the 28 days DSO compares to 31 at the end of the year. So it does show regardless of the timing of the year-over-year perspective from ERP, we did make progress.

The other thing I'll just point you to is we continue to do well managing our inventory. This is a journey we've been talking about probably since the second quarter of last year, but we've been steadily walking our inventory balances down as, again, we go live on ERP. It's been many, many years, but we're through the supply chain disruptions and some of the challenges that we faced back in the 2021 timeframe. And so, as you look at what we've done since about Q2 of last year to where we are now, inventory was a good driver of working capital improvement as well.

So really at the highest level, you're going to see it in AR and inventory when you get a chance to digest our 10-Q later this week.

**Jonnathan Navarrete**

*Analyst, TD Cowen*

Q

Great. Thanks. My second one is on EBITDA. What levers do you guys have left available to improve the EBITDA margins in 2024? And is there any segment that stands out with the most opportunity?

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

The question, what levers do we have to improve EBITDA?

**Jonnathan Navarrete**

*Analyst, TD Cowen*

Q

Yes, that's right. I mean, definitely it's largely driven like cost improvements, but I'm just curious.

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah. So if you think back to our Investor Day, it's the page I always think of, it's the page I said if there's one page I want you guys to remember from the day, it's this one. I clearly remember that. But I did a walk of kind of our starting point for the program of North Star to where we'd be at the very end of 2026.

But if you think about narrowing that focus into just this year, it's really the same walk. So we start at \$391 million as our comparable adjusted beginning balance for the year. Of course, right off, you have to take off the secular declines, which I like big round numbers, so let's call that \$25 million. Really from that point to the mid-range of our guidance, the lever is going to be what we're achieving in North Star.

As a reminder, we've got all the work streams that go across org discipline, pricing actions, procurement savings, you name it. We've laid it all out on the slide deck. All of those levers are there. And so, if you combine the cost levers we're doing as part of North Star, along with the revenue initiatives and just growth across the Payments and Data business, which as a reminder are scale businesses that as we grow the top line across the three, B2B, Merchant and Data, it should bring improved margins with it, and again, really as part of North Star going after the corporate cost center as well to try to remove cost from the shared services. So I think the answer is, it's all of the obvious levers you would expect and it's all of the things we've gone through as part of the North Star journey, and the simple walk is exactly like I laid out.

**Jonnathan Navarrete**

*Analyst, TD Cowen*

Q

Got it. Thank you. And my last question is actually on North Star itself. Can you just share a little bit of details of where we are today? How much was spent in North Star during the first quarter? And yeah, that's it. Thank you.

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah, sure. So you'll see in our earnings release that we had roughly \$15 million of restructuring cost in the first quarter. The majority of that was North Star. Not perfect, there was still \$1 million or so – \$1 million or \$2 million non-North Star-related activities, but net-net it was mostly that. So you may recall, we were at roughly \$45 million through the program at the end of the year. So I'd call it right around \$60 million in North Star restructuring spend at this point.

You'll recall that the overall program has an estimated cost of somewhere between \$115 million and \$135 million. So we sit here today at \$60 million. That leaves us \$55 million to \$75 million left to go. We do expect a little could drift into the first half of next year, mostly Q1, but a little bit could drift in. So everything's on track from a spend perspective.

The other thing I signaled in Q1 as I – you guys will recall, we spent \$90 million in restructuring in 2023. We said it would come down here in 2024. I provided a range of \$60 million to \$80 million. I'm still in that range. So, kind of take everything I just said, sitting at \$60 million today through the first quarter, \$55 million to \$75 million left to go to the program, with some of it shifting into next year. And overall staying in that range, I think you can figure out kind of how to sequence the restructuring dollars the rest of the year.

**Operator:** Your next question comes from the line of Charlie Strauzer from CJS Securities. Please go ahead.

**Charles Strauzer**

*Analyst, CJS Securities, Inc.*

Hi. Good evening. Can I just make sure you hear me okay?

Q

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

We can.

A

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

We certainly can.

A

**Charles Strauzer**

*Analyst, CJS Securities, Inc.*

Great. Just when looking at the project North Star and you've talked a lot about that today, one of the things that's always been kind of hallmark of Deluxe is the ability to take cost out of the business over the years. And the revenue side has always been the more elusive or more difficult one to capitalize on those opportunities. Where are you on the revenue front there? And can you maybe provide a little more color as to some of the opportunities that are in front of you on the revenue side?

Q

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

So, Charlie, really appreciate the question. And I think it's one of the things that really is a hallmark of where Deluxe is today. So at the beginning of my prepared remarks, I talked about the progress we're making in our Payments and Data business, which is about 43% of the company's revenue today. And you saw in the first quarter on a combined basis, those businesses – the portfolio of businesses grew over 8%, with healthy margins at 22%.

A

So we fundamentally think the company is in a very different place today, where we have 43% of the company's revenue growing in the high-single-digit range with very attractive margins. And we're doing it at the same time that we're controlling or limiting the downside exposure on the secular declining business like checks, where we're continuing to win market share, putting in operational improvements, etcetera, to produce and protect that cash flow.

So we think the company today is a very different company than the company of just a few years ago that was not growing organically. And if you just see in the aggregate, we're now in the fourth consecutive year, I mean, Charlie, just once again the fourth consecutive year of organic revenue growth. And while that number may be modest, it is proving that we can consistently grow the company, and we're doing that by the success of the Payments and Data business as an aggregate.

**Operator:** [Operator Instructions] Your next question comes from the line of Marc Riddick from Sidoti. Marc, please go ahead.

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Hi. Good evening, everyone.

Q

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

Hey, Marc.

A

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

Hey, Marc.

A

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

So I was sort of curious if we can spend a little time on a couple of the other North Star threads that we haven't had a chance to touch on, one of which is around real estate. And I was wondering if you could maybe give us an update there, if there's any anything that we should be thinking about on that front.

Q

**Barry C. McCarthy**

*President, Chief Executive Officer & Director, Deluxe Corp.*

Marc, you may recall, we have made a lot of progress on real estate, consolidating our operating footprint, especially around our print production, our lockbox operation, etcetera. We continue to make more progress even in the first quarter, consolidating some of our office locations and the space we have in that and our footprint.

I think you'll continue to see us to make incremental improvement there. But over the last few years, we've already made a very significant step forward on consolidating our real estate footprint. And while there's a bit more to go, I feel like we've made significant progress there.

A

**Marc Riddick**

*Analyst, Sidoti & Co. LLC*

Great. And then I was wondering if you could also sort of – I wanted to step back to one of the comments around with cash flow improvement year-over-year. And Chip, I think you brought up the commentary around the timing of the ERP system last year. If I remember correctly, and correct me if I'm wrong, so I'm not – off the top of my head, I'm trying to remember if this is right. There was like a little bit of a blip when you guys went live that may have sort of maybe set you back a week or so or something like that.

Q

So relatively speaking, there's sort of a – you guys are sort of up against it a little bit last year with that part of it. Was there a little bit of an impact there that you obviously weren't seeing this year that was somewhat helpful there?

**Chip Zint**

*Chief Financial Officer & Senior Vice President, Deluxe Corp.*

Yeah, a little bit. I mean, if you think about our Print businesses, they would have had a little bit of pressure in Q1 a year ago with not being able to get everything out the door with perfect timing and then made up for it in the second quarter. In the blend of everything, when you think about secular unit decline and everything going on, it's not a huge part of the Print story.

A

But if you look at it in absolute terms, there was a bit of pressure we would have seen in the first quarter last year that gave us favorability in the second quarter. So as you look ahead to Q2 comps, there will be a little bit of



pressure with Print, but we think it really doesn't change the narrative of what's going on there, with the business just continuing to execute in this low- to mid-single-digit decline levels.

**Marc Riddick***Analyst, Sidoti & Co. LLC*

Q

Right. Got you. And then finally from me, I was sort of curious as to maybe if you could give a little bit of pricing dynamic update of what you're seeing out there as far as are there any particular areas where pricing pressures or any pushback has been seen that should be called out? Or what are we seeing there as far as your expectations as to pricing and escalations there?

**Barry C. McCarthy***President, Chief Executive Officer & Director, Deluxe Corp.*

A

So we continue to be successful at moving the price for our products up in the marketplace really across the portfolio. And we think we're able to do that because of the quality of the product and the service that we provide. We have – of course, no customer wants to see a price increase. I think that we've been very responsible and I think our customers would agree we've been responsible in the way we have been advancing our prices in the marketplace. And we have been able to make those price increases stand and we continue to take price.

We had – we put some additional price changes, increases in the first quarter that will benefit later in the year because, as you know, some of the increases get announced, but it takes a bit of time for them to be implemented and actually hit the P&L. But we continue to take price across the portfolio and it does not appear to have a significant impact on volume.

**Chip Zint***Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

And Marc, I would just add that you may recall at Investor Day, we talked about pricing as one of the North Star initiatives and how it was just advancing itself from inflationary input cost relative to output price and really moving to more of an analytical view of price stratification across the customer base or product base, really moving the needle on how we do it. And so, that is part of the initiatives and is one of the drivers behind why we continue to do it and feel good about the responsible price we're taking.

I would say if you boil it all the way up, and you got to remember you got parts of the business with some decline aspects of it, you got to normalize it all. But at the highest level, I'd say our growth in the first quarter was probably right down the middle, 50/50 price/volume, healthy mix of both.

**Marc Riddick***Analyst, Sidoti & Co. LLC*

Q

Great. Well, certainly an encouraging start to the year. Thank you very much.

**Chip Zint***Chief Financial Officer & Senior Vice President, Deluxe Corp.*

A

Yeah.

**Operator:** This concludes our Q&A session. I will now turn the conference back over to Brian Anderson for closing remarks.

## Brian Anderson

*Vice President-Strategy & Investor Relations, Deluxe Corp.*

Thank you, Marc. Before we conclude, I'd like to share that management will be participating in-person at both the Needham Technology, Media and Consumer Conference on May 14 and 15, and the TD Cowen Technology, Media and Telecom Conference on May 29 and 30, both in New York during the quarter.

Thank you again for joining us today and we look forward to speaking with you all again in August as we share our second quarter results.

**Operator:** Ladies and gentlemen, that concludes today's call. Thank you for joining. You may now disconnect.

### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.