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# Quad/Graphics, Inc. (QUAD)

Q3 2023 Earnings Call

### **CORPORATE PARTICIPANTS**

Katie Krebsbach

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Manager-Investor Relations, Quad/Graphics, Inc.

Chief Financial Officer, Quad/Graphics, Inc.

Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

### OTHER PARTICIPANTS

**Kevin Mark Steinke** 

Analyst, Barrington Research Associates, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to Quad's Third Quarter Conference Call. For today's call, all participants will be in listen-only mode. [Operator Instructions] A slide presentation accompanies today's webcast and participants are invited to follow along advancing the slides themselves. To access the webcast, follow the instructions posted in the earnings release.

Alternatively, you can access the slide presentation under the Investors section of Quad's website under the Events and Presentations link. After today's presentation, there may be opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I'd like to turn the conference over to Katie Krebsbach, Quad's Investor Relation Manager. Katie, please go ahead.

### Katie Krebsbach

Manager-Investor Relations, Quad/Graphics, Inc.

Thank you, operator, and good morning, everyone. With me today are Joel Quadracci, Quad's Chairman, President and Chief Executive Officer; and Tony Staniak, Quad's Chief Financial Officer. Joel will lead today's call with a business update and Tony will follow with a summary of Quad's third quarter and year to date 2023 financial results followed by Q&A.

I would like to remind everyone that this call is being webcast and forward-looking statements are subject to Safe Harbor provisions as outlined in our quarterly news release and today's slide presentation on slide 2. Quad's financial results are prepared in accordance with generally accepted accounting principles. However, this presentation also contains non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted diluted earnings per share, free cash flow, net debt, and debt leverage ratio.

We have included in the slide presentation reconciliations of these non-GAAP financial measures to GAAP financial measures. Finally, a replay of the call and the slide presentation will be available on the Investors section of quad.com shortly after our call concludes today.

I will now hand over the call to Joel.

### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Thank you, Katie, and good morning, everyone. Beginning on slide 3, in the third quarter, we were pleased to deliver consistent year-over-year EBITDA margins and \$27 million of free cash flow despite the challenging revenue environment. Net sales declined compared to the same period in 2022, primarily due to lower print, paper, logistics sales, as well as the 2022 divestiture of our Argentinean print operations. We continue to pay down debt, strengthen our balance sheet, and return capital to shareholders through additional share repurchases.

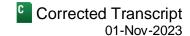
We are on track to achieve full year 2023 guidance for adjusted EBITDA, free cash flow, and debt leverage, and by the end of the year, we will have reduced debt by over \$560 million or 55% since January 1, 2020. We are lowering our full year 2023 net sales guidance due to industry wide print volume reductions in response to ongoing economic uncertainty, continued postal rate increases, and the impact of rising interest rates on specific clients. At Quad, we've seen the greatest impact to categories most sensitive to rising interest rates such as financial services, direct mail, including credit cards, insurance, and loans. Tony will share more detail on our year-to-date net sales breakdown and financial guidance shortly.

We are confident in our ability to manage for these near term print volume challenges, along with the long term expected organic declines in certain product lines like retail inserts due to our longstanding disciplined approach to managing all aspects of our business, including treating all costs as variable, and aligning our cost structure to revenue opportunities. At the same time, we continue to build momentum as a marketing experience company, and Quad is unparalleled in that we seamlessly bring together all the essential resources, brands and marketers needed for frictionless, scalable marketing execution as shown on slide 4. As we continue to scale our integrated marketing offering, print remains a core component of our business, and the largest portion of our revenue mix. We will continue to innovate and invest in print and other channels to ensure we can fulfill our clients' ever expanding market needs.

Turning to slide 5. I'm pleased to share that we continue to evolve our strategic leadership at the governance level, with the recent appointment of Melanie Huet to Quad's board of directors as an independent member. Melanie has a deep background in brand development, management, and transformation, and understands firsthand the challenges facing our clients. Currently, she is President of Brand Management and Innovation, and a Member of the Executive Committee at Newell Brands, a leading consumer products company. Prior to joining Newell in February of this year, she was Executive Vice President and Chief Commercial Officer at Serta Simmons Bedding. There she delivered three quarters of market share growth, transformed the sales organization, and built a \$1.5 billion innovation pipeline. Melanie has also worked in consumer products marketing at ConAgra Foods, Unilever, Kimberly-Clark, and Kraft Heinz. We look forward to leveraging Melanie's expertise on our board as we expand and strengthen our offerings and drive revenue growth.

I'm also pleased to share that Joshua Lowcock has joined our company as President of Quad Media and will further energize our efforts to create a differentiated, cohesive, and market leading audience targeting and media engagement offering. Joshua joins us from UM Worldwide, part of agency holding company IPG, where he was Global Chief Medical Officer responsible for omni-channel media, strategy, predictive analytics, performance marketing, content, innovation, and adtech. He played a pivotal role in developing involving UM Worldwide's goto-market strategy. Previously, Joshua worked at Media Best, where he led the Walmart digital team. He also served as Head of Commercial Products and Platforms at News Corp., where he led the launch of the company's

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customer data and analytics strategy. Joshua is well-known in the industry and publishes and speaks regularly on topics relating to media, innovation, and transformation. We will tap this considerable experience and expertise to elevate relationships with clients and fast track growth in areas that represent significant opportunity for us.

On slide 6, we show Quad's key growth drivers, delivering integrated service excellence, accelerating market penetration in key verticals, and evolving our culture as an MX Company. Integrated service excellence is at the core of who we are and what we do.

Quad connects every facet of the marketing journey efficiently and at scale, providing innovative, data driven offerings from strategy and consulting to data and analytics, technology solutions, media services, creative and content solutions, and managed services. As a result, we help companies reduce the complexity they experience from working with multiple agency partners and vendors, increase their marketing process efficiency, and maximize the effectiveness of their marketing efforts.

Turning to slide 7. We show how we are growing our presence with well-known brands in our target verticals of consumer packaged goods, finance and insurance, health, direct to consumer, retail, and publishing. These reputable, well-known brands include Amazon, Walmart, ConAgra, American Express, and Abbott Labs and are all admired for the excellence and the loyalty they have built with consumers. We take great pride in knowing they trust us to deliver on their marketing vision. To accelerate market penetration, we are focused on growing awareness that better marketing is built on Quad. We are gaining visibility with new brands, including blue chip companies, through our participation in industry events, for example, we recently participated in the 2023 Forbes CMO Summit in Miami and Advertising Week in New York City, where we connected with brands and marketers about their marketing challenges and how Quad can solve those challenges.

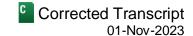
On slide 8, we show an example of how we're growing momentum with a premier brand. Titleist is the golf industry's leading performance equipment brand recently engaged us for a brand design and product launch expertise. We will be updating the packaging for its flagship Pro V1 golf ball, the most played ball on the PGA Tour and the number one golf ball brand in the world. This opportunity represents significant, positive exposure for Quad, as the Titleist Company produces more than 350 million golf balls every year.

Titleist selected Quad for several reasons, including our exceptional approach to brand design in which we focus on making brands a favorite through measured potential consumer action and reactions and connections, our comprehensive creative services and expertise which include brand positioning, design strategy, brand identity systems, adaptive design, packaging and retail environments.

Our ability to leverage our own in-house consumer testing for brand package performance via packaging team and our proven product launch expertise, which consists of our strategy, creative and connections, planning to build in place attention grabbing campaigns that bolster awareness and drive sales. We are excited to be under a multi-year contract as Titleist's trusted partner for this high profile brand building work, which will be in market in early 2025. We successfully competed against respected sports brand agencies with deep category experience for this win. We look forward to expanding our partnership with Titleist parent company Acushnet for other top rated equipment for golfers.

On slide 9, we show an example of how we are helping another thriving consumer packaged goods company achieve brand growth. Cacique is the number one producer of authentic Mexican style cheeses, meats, salsas, and other products in the US is experiencing rapid growth as demand for Hispanic foods soar. Cacique chose to partner with Quad due to our reputation for delivering breakthrough, creative, and brand growth in CPG categories. The company came to us by word of mouth, recommended by another client for whom we are

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providing brand strategy, creative, and campaign development and more. As Cacique's new creative agency of record, we are focused on building awareness and loyalty among consumers seeking authentic ingredients and high quality products in this category. In addition to brand strategy and creative and campaign development, we are also leveraging our data driven connections, planning expertise in support of Cacique's aggressive business goals to reach new market segments. Our work with Cacique is just underway and will be in the market in 2024. Cacique is an impressive brand new to our CPG portfolio, and one with tremendous revenue growth opportunities. Already we're in discussions with this client for more opportunities to refresh its brand and packaging and provide printing services.

Turning to slide 10. For more than 50 years, our commitment to creating a better way has inspired creativity in how we address environmental, social, and governance matters. For Quad, ESG is a business imperative as it underpins our growth strategy. We have made progress on our ESG commitments published in our inaugural 2021 report. These include maintaining our focus on diversity, equity, inclusion, prioritizing sustainable resource consumption, and investing in employee safety, health, and wellness. To learn more about our commitments and how we continue to create positive, sustainable change at our company, and in the communities where we live and work, please access our newly released 2023 ESG update at quad.com or scan the Flowcode on slide 10 of today's presentation.

Before I turn the call over to Tony, I would like to thank our employees during our seasonally busiest time of the year for their continued hard work and daily commitment to providing the highest levels of service for our clients. As we move forward with our growth strategy, I have great confidence in our team and continue to be enthusiastic about our growth opportunities, as a marketing experience company.

With that, I will now turn the call over to Tony for the financial review.

Anthony C. Staniak

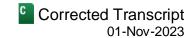
Chief Financial Officer, Quad/Graphics, Inc.

Thanks, Joel, and good morning, everyone. On slide 11, we show our diverse revenue mix. Net sales were \$700 million in the third quarter of 2023, a 16% decline compared to the third quarter of 2022. On a year-to-date basis, net sales were \$2.2 billion in 2023, a decline of 7% compared to 2022. Our net sales were impacted by industry wide volume reductions in response to continued economic uncertainty, postal rate increases, and the impact of rising interest rates on specific clients. For example, on a year-to-date basis, direct mail has temporarily decreased from 14% of our total revenues to 11%. We expect direct mail growth in future years. Despite these headwinds, we have seen year-to-date increases in our net sales mix from segment share gains in magazines and catalogs, in Mexico due to increased education work of volumes exported to the United States, and in our instore signage product offering, continuing a multi-year trend of high revenue growth for our in-store team.

Slide 12 provides a snapshot of our third quarter 2023 financial results. Adjusted EBITDA was \$57 million in the third quarter of 2023, as compared to \$69 million in the third quarter of 2022, and adjusted EBITDA margin declined slightly to 8.2% in the third quarter of 2023, compared to 8.3% in the third quarter of 2022. The decline was due to lower sales and lower pension income, partially offset by benefits from improved manufacturing productivity and savings from cost reduction initiatives. On a year-to-date basis, adjusted EBITDA was \$168 million in 2023, compared to \$173 million in 2022 while adjusted EBITDA margin improved from 7.4% to 7.7%.

Adjusted diluted earnings per share was \$0.11 in the third quarter of 2023, as compared to \$0.32 in the third quarter of 2022. On a year-to-date basis, adjusted diluted earnings per share was \$0.28 in 2023, compared to \$0.49 in 2022. The decline was primarily due to lower adjusted net earnings and was partially offset by the positive impact from share repurchases. We are active in the market yet again this quarter, repurchasing our

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Class A shares. Beginning in the second quarter of 2022, we have repurchased 5.5 million shares or approximately 10% of our outstanding shares for a total purchase price of \$20 million.

Free cash flow was negative \$18 million in the first nine months of 2023, a \$61 million improvement compared to the first nine months of 2022, and included \$27 million of free cash flow generation in the third quarter of 2023. We have now generated positive free cash flow during both the second and third quarters of 2023, which are typically negative free cash flow quarters due to seasonality. The increase in free cash flow was primarily attributable to lower inventory needs as supply chain challenges improved and we experienced strong receivables collections. This improvement was achieved despite a \$10 million increase in capital expenditures as we continue to invest in our automation initiatives. As a reminder, the company historically generates the majority of its free cash flow in the fourth quarter of the year.

Slide 13 includes a summary of our debt capital structure. We are pleased to have reduced debt by \$132 million over the last 12 months with strong free cash flow. However, due to the working capital build during our peak production season, on a year-to-date basis, net debt increased by \$39 million to \$584 million at September 30, 2023 and the debt leverage ratio increased 20 basis points to 2.36 times at the end of the third quarter 2023. The increase in net debt and the debt leverage ratio was primarily due to the negative \$18 million of free cash flow, and \$10 million of Quad share buybacks in the first nine months of 2023. We expect debt to decrease to under \$470 million in the fourth quarter, with seasonal reduction of inventory and collections of receivables, and we remain on track to achieve the low end of our long term targeted debt leverage range of 2 times to 2.5 times by the end of this year.

As of September 30, our blended interest rate was 7.1%, which is up from 5.7% a year ago. To mitigate the impact of the rising interest rate environment, we entered into to interest rate collar agreements effective February 1, 2023. Including interest rate swaps, our debt is 50% floating and 50% fixed. Our liquidity includes up to \$331 million of availability under our revolving credit agreement, as well as \$11 million of cash on hand. Our nearest significant debt maturity is \$88 million occurring in January 2024, which we will fund with our revolving credit agreement and cash on hand. The majority of the debt maturities are not due until November 2026.

We have updated our 2023 guidance as shown on slide 14. Annual net sales are now expected to decline 7% to 9% compared to previous guidance of annual net sales remaining flat to declining 5%. Although we plan for organic print decline in our original guidance, print volumes fell further than our projections due to continued economic uncertainty and higher postage rates in addition to the impact on specific clients of rising interest rates as we previously discussed. Despite the net sales decline, our flexible model and focus on disciplined cost management and labor productivity is enabling us to increase our expected adjusted EBITDA margin by 50 basis points at the midpoint of our updated guidance ranges. That profitability performance combined with reduced working capital requirements from improved supply chain, is driving strong free cash flow and we reaffirm the midpoint of our free cash flow guidance to be \$70 million in 2023, which includes at least \$70 million of investment in capital expenditures to further automate our unparalleled integrated marketing platform. And finally, we continue to expect debt leverage to be approximately 2.0 times by the end of 2023.

Slide 15 includes our key investment highlights as we continue to build on our momentum as a marketing experience company. We believe that Quad is a compelling long-term investment and we remain focused on growing net sales and driving higher profitability through continued diversification of our revenue and clients. With our expanded offerings, there is a significant addressable revenue opportunity with both our large base of existing clients as well as new clients. As part of our multi-year debt reduction strategy, by the end of this year, we expect to reduce debt by over \$560 million from over \$1 billion on January 1, 2020, representing the low end of our current long-term target debt leverage range of 2.0 times.

We intend to further reduce debt in 2024 with our strong free cash flow generation augmented with proceeds from selling non-core assets. And with the significant debt reduction, we will further strengthen what we believe is an industry leading financial foundation that provides us the flexibility to strategically deploy capital, including scaling the growing parts of our business and further automating our print offerings for greater production efficiencies while returning capital to shareholders.

With that, I'd like to turn the call back to our operator for questions. Operator?

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. Now begin the question-and-answer session. [Operator Instructions] First question is from Kevin Steinke, Barrington Research Associates. Please go ahead.

Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Good morning, Kevin.

**Kevin Mark Steinke** 

Analyst, Barrington Research Associates, Inc.

Hey, good morning. Good morning, everyone. I wanted to start off with something that really stood out to me. Here is the flexibility of your business model as you noted. The midpoint of the sales guidance, as I calculated for 2023, came down by about 6%, but you were able to maintain the midpoint of your adjusted EBITDA guidance, so you talked about cost management, and labor productivity, and things like that. But maybe just talk a little bit about what you're able to do to adjust so quickly to maintain the profitability outlook despite the lower sales outlook, and maybe any actions that you took in the quarter on the cost side?

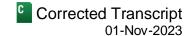
Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Yeah. Kevin, I'll take – this is Joel, I'll take a stab at that, and then Tony can fill in. But yeah, I mean, I like to say that Quad has to be very ambidextrous. We come from a disrupted industry on the print side and at the same time, we're building up a case that could actually be a disruptor on the on the marketing side. And so, being blessed with being in the printing industry, we've had to be very good at adjusting to things that get thrown at us. And so we do try and keep and have a mentality that all costs are variable. And so over time, as we've seen some of the expected decline in some of the areas like retail inserts or publications, we've been able to scale down the platform by we've unfortunately closing plans to adjust for it, but then realizing the value of those plans by selling the real estate to help pay down debt.

Furthermore, I'd say one of the big significant drivers too was the great work done by the people on the floor, because Tony mentioned productivity is quite a bit up this year. And when you think about where the world was only a year or so ago with really tough environment for getting labor, we ended up putting a holistic approach on that and really accelerating a lot of our training. And so, as we saw softness come into this market this year, due to a lot of what's going on in the economy, the core part of the full time equivalents were much more trained up as a group than before. And so that's another way that we've done it.

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And look, I guess, we're a lean enterprise group and we always have been, and we're able to adjust very quickly. And I think that we always have been focused on being able to weather storms and take advantage of those, which is why we moved so quickly employee cost out. I mean, when the pandemic hit, we got out of panic mode within weeks when that happened that spring so that we could continue running the business. And that was by making really tough decisions very quick and squeezing down. And so, it's kind of built in our DNA, maybe partially because of where we come from, but also because I think we've got a very disciplined group when it comes to making sure we adjust for these times. Tony, am I missing anything?

### Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Α

Right. One thing I would just add, when we think about EBITDA, Kevin, is we've been focused on our pricing and making sure that we get the value that we provide to customers. So you're seeing a benefit come through the bottom line coming from in the inflationary times, we've been able to focus on some price increases.

### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Δ

Well, and also I think that as we provide multiple services and products to people. We're getting paid for the value of that, because anytime we can do more than one thing for a client. We can actually help them pull cost out through workflow analysis. And really, the more they kind of exposed to us, the more we can kind of look at content and figure out where a lot of the waste is, and people are willing to pay for that because their savings is much greater than the value that their payments.

#### Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.



Okay. That's great commentary. Thank you. So, when I think about the change in the sales outlook, maybe just walk us through what's changed there. Was it primarily the direct mail piece that you highlighted or is it more broad based than that? Maybe as you have in previous calls, maybe just touch on the sales trends you're seeing across the various product categories?

#### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

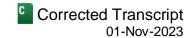


Sure. And I'd say that, there's an overarching thing on top, which is really economic softness. We started seeing that from our clients as we got towards the summer, as people looking at fall, even though retail numbers came out recently, those weren't adjusted for inflation. So if you look at absolute units, sort of in CPG world and retail, it's actually down. So that's an overriding factor. But we try and break out with large scale print, targeted print in integrated solutions, we do that to kind of show where the expected decline is, and that's in large scale print. And so that declined as expected, I'd say, retail inserts maybe a little bit faster pullback just because of the economic side. But we expect that to keep declining.

In targeted print, this is the area that you mentioned where catalogs, direct mail, packaging in-store, these tend to really benefit from our MX strategy of marketing experience company, because when we're solving some of the brand problems upstream, they tend to want to then also engage us for engaging their consumers through these different channels. And the tough one here has been direct mail.

And it's important to point that out because we don't look at this as one that's going to keep declining. We really focus on a highly personalized, data driven, direct mail, but we were down double digit percent sales in that this year. And we saw that starting to materialize at the end of last year when interest rates went crazy. So things like

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personal lending, we're deep in financial. We had one big outfit that was exiting consumer banking, which was a significant player. And so I see that the blip here in sales, we certainly have some the economic overhang, but in direct mail, that's all reversible as we continue to sell the value add that direct mail brings.

In-store was up 12%, because that is one of our fast growing places and packaging hung in there relatively flat. The one other place that is hitting us on revenue would be what the post office is doing. And when I look at targeted print catalogs is the one that's most affected by this. We have a post office who thinks that they can fix their problem by just increasing prices as opposed to pulling cost out. And they've accelerated that a bit this year with our customers getting two increases in one year.

And so in catalogs that they get affected guickly because they can pull back on their prospecting of catalogs. And so, we saw some pullback there. But I'd say that there is an overall economic pullback that we've seen, and marketing tends to see it first. And the direct mail piece is the one that I would point to for people to understand that we see that as a manageable category. That's not about continued decline.

### **Kevin Mark Steinke**

Analyst, Barrington Research Associates, Inc.

Okay. Thank you. That's helpful. And so when I look at the updated sales guidance, you're still – it would still imply a nice seasonal ramp in the fourth quarter in sales. So, I guess, are you expecting or seeing a fairly normal sequential ramp up related to the holidays, but just I guess off of a lower base?

Joel Quadracci Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Yeah. I mean, at this point in the year, a lot of that stuff, our customers are pretty locked and loaded. There's some ebb and flow in it, specifically maybe between months sometimes, but December is one that kind of sort of materializes later in the game. But we feel very good about where things are at for the rest of the year.

#### Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

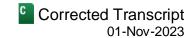
Okay. Any thoughts, I know you haven't given guidance for next year, but just beyond the end of this year, do you think I guess dependent on the economy, but how do you think volumes might trend in the industry? I suppose interest rates will continue to be a headwind in the financial services area, but do you think there's some pent up marketing spend that starts to come back? Or it's just going to continue to follow like what the consumer is doing or just I mean, any thoughts on from your industry experience how you might expect volumes to trend or react in this environment?

Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Well, I think if you give me a glimpse of your economic crystal ball that, I could answer it better. But yeah, I think it has a lot to do with how this plays out. I mean, even like in the financial community, you have that shock of interest rates, but ultimately they still got a market to their customers, right, so they freeze up really quickly, but ultimately you have to get back to doing it. So, I'd see probably some relative return to being out there. In terms of volumes, hard to predict at this point just given the economic headwinds, but we're not kind of waiting around [indiscernible] (00:31:11) operating strategy, even in direct mail, we have a lot of strategy of how we're going to grow that in the future. And unfortunately, one of that we just closed a plan which helps with the volume shortfall now, but strategically allows us to really shore up and create more opportunity for the type of direct mail we sell in the future.

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So I think, we always look at all of these categories when there's a softness like that. And we don't wait to make sure that we can manage through it. But on the sales side, we've got a ramp up of a lot of stuff that's happening on the marketing experience category, and that's why we keep trying to show these case studies because these are not bland brands. I mean, Titleist is a major brand here, and we feel really good about those wins, because a lot of those things we show you are wins that are yes, it's maybe agency of record, but ultimately we believe will create a lot more downstream revenue, and is normally proven out that way.

And remember, any time you get down into targeted print from integrated solutions, you're dealing with much bigger invoices. So we've been very good at bringing in a lot of really good talent. I talked about Josh Lowcock, who's helping on the media side, and the data side, and analytics. But we're going to gear up very quickly to go after a lot of new brands who never knew Quad. So despite what our normal customers are seeing economically in 2024, we expect to keep feeding it with new seeds.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

And Kevin, you've now participated in a few of our calls, you know that during uncertain economic times, we're going to continue to focus on strength of the balance sheet debt reduction, we talked about going further decreases on debt reduction, getting below 2.0 leverage as we look out into 2024. So yeah, we'll continue to invest in growth, as Joel has said, we're going to continue to support shareholders. We can do all that because of the strong free cash flow that we provide.

**Kevin Mark Steinke** 

Analyst, Barrington Research Associates, Inc.

Yeah, absolutely. That's a great point, Tony. So – and you did mention there, I wonder – I was planning to ask about this. But you highlighted a couple of nice new wins in your slide deck. But maybe just talk about the overall pipeline for your agency solutions and how the messaging around your unique end to end integrated marketing solutions is being received in the current economic environment.

Joel Quadracci

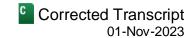
Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Yeah. It's actually being received well. I think that it goes to the ecosystem that's out there for brands and how they market is – it's fairly broken, like we always say, it's not very integrated. And in one of my answers before I mentioned the more a client allows us to look at their process, their content, how they go to market, the more we can help integrate those processes, not just in how they would interact with us and producing it versus a big holding company, but also within their own four walls. We're very good at helping them squeeze the cost out that that can happen because of cost takeout.

So it's been received very well. And I say that I always believe that never wasted a soft environment, because that's when a lot of our marketers are under more pressure. It's under more pressure to try and find audience, convert them to customers, but also under more pressure to find cost takeout. And so they tend to want to listen a lot quicker in a downturn. But our marketing team has done an outstanding job over the past two years, making us known to a whole group of clients who never knew us before.

And so we feel very good about the growth of the pipeline and the types of services we're being asked to do, and the fact that the integration part is playing out. And so, again, sometimes it takes a little while for someone to start with being in AOR, but then cascades down into us doing in-store or packaging for them. But when they do that,

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that's when you start to see the revenue pop from each of the accounts. So like I said, I'm excited. We're very ambidextrous, yeah, I'm like, well, disappointed that on the print side we have to manage for some pullback, but I'm super excited on the marketing experience side, because it's really ringing true to what people are looking for.

#### **Kevin Mark Steinke**

Analyst, Barrington Research Associates, Inc.

Okay, great. Thank you. I'll just ask maybe couple more here. But when you talk about the increases in postage rates and how your clients have reacted to that, specifically called out the catalog piece. Do you think that's something they eventually adjust to or you work with them to help them out on that side? I know you already do that in terms of trying to lower their postage expenses, but how do you think that situation ultimately plays out or resolves?

### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Yeah. I think it's twofold. When you get a rapid increase in your biggest cost, you get a quick reaction until you can adjust for it. So historically when you see the post office do increases that are outsized, you see a quick pullback. And then ultimately, though, people have to market, right. So they adjust, they get smarter about who they're mailing to. They really start to focus more on what's your bigger response per piece and how can we make that better? That all lends to understanding your data better of audience and who you're going to and what you're sending to them. And then which plays into all the things we're doing about helping people with analytically figuring out what's the best use of their dollar.

But on the operational side, we do a lot of stuff to offset the post office over a lot of time. We significantly offset current postal costs through all the co-mailing that we do and we're really excited, because we're rolling a whole new product right now that might – not might will help our clients significantly offset more of this postal increase that's going on. It takes time to ramp up, because some people need to test and do it. But we're rolling it out with publications right now and we expect to as fast as possible to get tthe catalogers on task as well.

So we – it really pushes us to be innovative, because I think that the key point is people have to remember we do most of the post offices work, we do all the sortation, we combine the customers, and we drop into the almost to the closest post office to your house, and that's where the post office picks up. And so that's where we really push process innovation to help them offset it. So, it's a little bit of both in terms of your question.

### Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Yeah. The majority of cost that someone pays to print is postal, right. So this is a big item, so, all the solutions that Joel talked about and the scale that we bring that gives us an advantage in helping businesses be the most efficient they can be in getting things delivered to and destinations.

### **Kevin Mark Steinke**

Analyst, Barrington Research Associates, Inc.

All right. Yeah. Understood. So just two more here. Anything to highlight in your international markets and what's going on there, you saw a decline year over year, but is that seeing the same kind of headwinds as you're experiencing in the US, I guess?

#### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.



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Well, quite frankly where we see the softness would be in Europe, because Europe has obviously big challenges now and ahead of it. But if you look at Mexico, that has been tremendously successful for us and we're continuing to actually grow that organically. And so we've got into some new product lines. We've signed up a lot of new customers. We're adding a new, very large press in Mexico has to be up and running by February, or our clients would be upset. But it's on schedule, but that's actually a great story. So Mexico is a very good highlight offset by some of the softness in Europe.

### **Kevin Mark Steinke**

Analyst, Barrington Research Associates, Inc.

Okay. Thank you. And then lastly, Tony, as we think about the restructuring and impairment charge line, they were up a bit sequentially in the third quarter from the second quarter. Have you taken additional actions that would lead to a bit higher charges than you'd been previously expecting here, or just how should we think about that trending in the fourth quarter?

### Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Sure. So if I start with the third quarter on that, a portion of the expense that you saw come through that line was impairment related about half of it, impairment related non-cash in nature. So the third quarter was actually from a cash perspective, the lowest restructuring quarter thus far. As we look out in the fourth quarter, we are anticipating some restructuring expenses. We continue to address capacity needs in our production platform that will lead to cost there.

#### Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Okay. Thanks for taking all the questions. Appreciate it.

#### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Okay. Thank you, Kevin. Operator?

**Operator:** Thank you. So this concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Joel Quadracci for closing remarks.

### Joel Quadracci

Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Thank you, operator, and thank you, everyone, for joining today's call. I want to close by reiterating my confidence in our strategy and our role as a market experienced company. Our integrated marketing offering continues to be a competitive differentiator and a key driver behind our company's overall momentum going forward. At the same time, we remain focused on proactively managing all aspects of our business for long term strength and stability and shareholder value creation. With that, thank you again and have a good day. We look forward to speaking with you again next quarter.

**Operator**: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

### Quad/Graphics, Inc. (QUAD) Q3 2023 Earnings Call

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