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Quad/Graphics, Inc. (QUAD)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Quad's First Quarter 2024 Conference Call. During 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 on the Investors Section of Quad's website under the Events & Presentations link. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Katie Krebsbach, Quad's Investor Relations 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 first quarter 2024 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 in 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. Our first quarter results were in line with our expectations and we remain on track to achieve our full-year 2024 financial guidance. As we communicated on our last earnings call, we anticipated the first quarter would have the most significant year-over-year decrease in net sales and adjusted EBITDA of any quarter in 2024. External factors impacting sales included significant postal rate increases and ongoing economic uncertainty like elevated interest rates, which led to a decrease in financial services direct mailings. Sales were also negatively impacted by the recent loss of a large grocery client.

Free cash flow improved in the first quarter, and we will continue to use our strong free cash flow generation and cash from asset sales to fuel our diverse capital allocation strategy. This strategy includes investing and scaling our offerings, further reducing debt and returning capital to shareholders, such as through our next quarterly dividend of $0.05 per share, payable on June 7 to shareholders of record as of May 22.

Despite revenue headwinds, we remain confident in our ability to manage all aspects of our business by treating all costs as variable, aligning our cost structure to revenue opportunities and optimizing print manufacturing platform by consolidating work into plants where we can achieve the greatest manufacturing efficiencies and subsequently selling assets no longer required for business operations.

Turning to slide 3, we continue to execute on our mission to deliver a better marketing experience, so our clients can focus on delivering the best customer service. Our MX solutions are flexible, scalable and connected and span every facet of the marketing journey from online to offline, across creative, production and media, and supported by data-driven intelligence and state-of-the-art technology included AI-driven solutions. We tailor each of these solutions to client objectives to strengthen marketing effectiveness, improve speed-to-market and drive cost efficiencies, and deliver value on investments.

Moving on to slide 4, at Quad, we are continually innovating new solutions for our clients and in new spaces. During the quarter, we announced our entry into Retail Media Networks or RMNs, which are the next big advertising channel. EMARKETER predicts ad spend in omnichannel RMNs will grow to over $100 billion by 2027. Quad's focus is on advancing the in-store shopping experience by taking the best elements of digital commerce and bring it into physical store environments.

Our In-Store Connect solutions build on our deep expertise with retailers and consumer packaged goods companies, and is fortified by our recent acquisition of DART Innovation, an in-store digital media solutions provider. Through In-Store Connect, we help brands deliver engaging messages and promotions right at the store shelf, the most critical moment in the purchasing decision.

Earlier this week, we announced a new partnership with The Save Mart Companies, the largest private regional grocer on the West Coast, to launch its in-store RMN. We're also in active talks with several other retailers and look forward to demonstrating how In-Store Connect could generate value for our clients as we strive to become the industry standard for in-store Retail Media Networks.

Given ongoing postal rate increases, we remain focused on advocating for postal reform and developing solutions to help our print clients save money and differentiate Quad as a market innovator. Our two-pronged approach to postal optimization maximizes savings based on individual mail type, volume and region, while also increasing response through creative data-driven formats across all media channels. During the quarter, we launched our latest postal optimization solution Household Fusion.

Turning to slide 5, this innovation combines various marketing mail from different brands or separately various magazines from different publishers into a single package delivered to one address, creating significant postal savings for participating clients. Our clients are enthusiastic about Household Fusion, including PWX Solutions, a direct marketing and production partnership formed between Hearst and Condé Nast. PWX praised our pioneering innovation, saying Quad is always looking out for everyone's best interests and the Household Fusion program is really paying off. We will continue to evolve this MX Production solution to drive value for our clients.

During the quarter, we also introduced the next evolution of our media agency, Rise, which brings together our full range of media and owned data services under one brand, so we're even better equipped to solve client pain points. Our offering, shown on slide 6, is truly differentiated. Our modern integrated data stack has privacy at its core, and it is resilient to industry challenges like the deprecation of third-party cookies.

Another key differentiator is radical transparency, something deeply ingrained in our culture and way of thinking at Quad, but still quite uncommon across the media industry. Radical transparency means our clients see what we see, no hidden charges. Our approach minimizes the tech stack tax typically paid to data onboarding platforms that connect, control and activate data, enabling us to maximize our clients' dollars in working media. We are confident that our enhanced media offering will drive revenue growth.

Today's marketers compete in an ultra-competitive landscape and are required to do more with less to resonate with their target audiences. When it comes to creative services, marketers are often faced with having to choose between high quality creative and consent or speed and scale. We are answering the market need for smart, scalable creative with an integrated and flexible new solution launching this month. Our solution integrates all our creative business lines from brand strategy and design to campaign ideation, pre-media and adaptive design and content creation, and backs them with our 24/7 global production capabilities. We believe this combination will redefine creative excellence, putting quality first regardless of project size, scope, timeline or budget.

On slide 7, we are proud to provide an update on campaign results for two clients, Nielsen-Massey Vanillas and CLR Brands, with whom we announced new partnerships on our previous earnings call. During the 2023 holiday baking season, our Taste of Vanilla as Vanilla Should Be campaign for Nielsen-Massey Vanillas propelled it to be the fastest growing extract in the market. Our outperforming consumer packaged goods benchmarks by generating a 13% increase in loyalty and 1.8 million website visits, according to our client.

Since I've been there, I've done that campaign for CLR Brands entered the market last October. The cleaning products later reports it's realized 124% increase in store locator visits and an 18% increase in sales. In both of these examples, we connected high-impact creative with expert media and data analytics to ensure the right message was delivered to the right audience at the right place and time.

Turning to slide 8, we share an example of how Quad is helping a lifestyle and personal care brand increase its marketing effectiveness through our integrated offering. Raw Sugar Living, a disruptor in the clean, beauty and personal care space, were seeking a partner to help facilitate the next phase of its brand growth, following a rapid expansion into retail stores. They chose to partner with Quad due to our great reputation for delivering breakthrough creative and brand growth in CPG categories, coupled with our robust data insights and media capabilities.

As Raw Sugar's first creative agency of record, we are now providing brand strategy, integrated campaign development and content production. We are also providing media strategy, including connections planning, as well as omnichannel media execution and optimization. Our first direct to consumer campaign for Raw Sugar will launch this summer, but already our team has been hard at work helping promote the brand. In April, we helped the client launch product in Costco stores for the first time ever. We also supported its 2024 product rollout by hosting a Pop-up Market for 60 social media influencers and media representatives at our New York City office and event space as shown on slide 9. The client is thrilled with our partnership, so much so, it recommended us to a large health and wellness company for which we are now providing creative and media work.

On slide 10, we show another example of how the services within our MX Solution suite work together to provide a better marketing experience for our clients. SpinLife, the nation's largest direct to consumer retailer of durable medical equipment, recently engaged us to help it strengthen consumer connections to drive increased response rates and revenue. Our work at SpinLife's new marketing agency of record includes high-impact creative delivered at speed and scale across online and offline channels, including print, web and digital, fast flexible catalog printing and distribution and data backed media solutions to activate campaigns with ease, including an expanded digital presence through paid search, paid social, marketplace and affiliate media and SEO Support.

SpinLife praise our integrated approach to account management, which enabled us to stand up the account within three short months. They shared it with the smoothest and fastest onboarding they have ever experienced. And said, we are excited to see the work coming together and the teams finding the efficient and effective way to drive our business. Already we've activated two digital campaigns and catalog work will enter the market next month. Now we are in the process of establishing a client dedicated team integrated with SpinLife's marketing operations to provide further support and through which we can introduce additional value-added Quad solutions.

SpinLife is extremely pleased with our ability to address its creative production and media needs all in one place, decreasing the complexity of working with multiple agency partners and vendors and streamlining processes for greater efficiencies. We look forward to continuing to partner with SpinLife on new initiatives to further ignite its brand and drive demand.

Before I turn the call over to Tony, I want to acknowledge that May Is Mental Health Awareness Month and in keeping with our long standing commitment to taking better care of our employees, we are launching a new mental health liaison program in partnership with the National Council for Mental Wellbeing. This program, part of our existing robust wellness benefits for employees, will help educate employee volunteers to act as advocates for mental health, removing the stigma and connecting co-workers in need to Quad's emotional support resources. This type of program reflects our strategy as an employer of choice in the workplace for the marketing industry's best talent, a key driver for growth.

With that, I'd like to 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. During the first quarter of 2024, our net sales were $655 million, a 15% decline compared to the first quarter of 2023 due to lower paper, print and agency solutions sales. Our print volumes were negatively impacted by ongoing external headwinds, including significant postal rate increases and economic uncertainty, as well as the loss of a large grocery client. Additional trends that impacted our revenue mix in the first quarter included a 2% increase in magazines due to segment share wins such as AARP, as well as a 2% decrease in Latin America, primarily from lower educational book volume exported to United States.

Slide 12 provides a snapshot of our first quarter 2024 financial results. Adjusted EBITDA was $51 million in the first quarter of 2024, as compared to $60 million in the first quarter of 2023. And adjusted EBITDA margin declined from 7.9% to 7.7%. The decrease was primarily due to lower sales, partially offset by benefits from improved manufacturing productivity and savings from cost reduction initiatives. This is consistent with what we had communicated on last quarter's earnings call, during which we anticipated the largest year-over-year adjusted EBITDA decrease to be during the first quarter, while the full cost savings of our recent restructuring actions were ramping up.

In response to lower sales, beginning last year and ending in the first quarter with the announcements of the Saratoga Springs, New York and Bolingbrook, Illinois plant closures, we completed restructuring actions that we expect will generate $60 million of cost savings in 2024. Adjusted diluted earnings per share was $0.10 in the first quarter of 2024, as compared to $0.15 in the first quarter of 2023, primarily due to lower adjusted net earnings, partially offset by the impact of a lower share count due to stock buybacks.

Since the second quarter of 2022, we have repurchased approximately 11% of our total outstanding common stock. Free cash flow was negative $70 million in the first quarter of 2024, a $9 million improvement compared to 2023, primarily due to reduced capital expenditures. We continue to target annual capital expenditures of approximately 2% of our net sales.

As we shared last quarter, we will continue to generate strong free cash flow in addition of proceeds from asset sales as shown on slide 13. During the five-year period from 2020 to 2024, we expect to generate over $740 million of free cash flow and proceeds from asset sales. These sales include divestitures of certain non-core portions of our business, as well as sales of property, plant and equipment and closed facilities.

In April, we sold our minority investment in Manipal Technologies, a leading print services and end-to-end business solutions provider headquartered in India for total proceeds of $22 million, of which we have already received $17 million in April 2024, with the balance due by the end of the third quarter. We also continue to make progress on the previously announced sales of four owned facilities from which we will generate further proceeds.

Slide 14 includes a summary of our debt capital structure. At the end of the first quarter, our net debt was $544 million. Effective April 30, we entered into an interest rate swap, converting $15 million of our variable rate debt to fixed rate. With that interest rate swap, in addition to our interest rate collar instruments, our pro forma debt at the end of the first quarter was 59% floating and 41% fixed at a reduced blended interest rate of 7.6%, compared to 7.8% if we had not executed the swap.

As a reminder, during the first quarter, we generated $53 million by successfully increasing the commitment with one of our banks to add $25 million to our term loan, and also by entering into $28 million of financing arrangements for two large printing presses. We then used our revolving credit facility and cash on hand to repay an $88 million term loan in maturity. And at the same time, the total capacity under our revolving credit facility decreased by $90 million to $343 million. Our next nearest significant debt maturity is now November 2026.

We show the seasonality of our free cash flow and debt leverage, as well as our long-term commitment to debt reduction on slide 15. Our seasonal production peak, which occurs in the late third quarter and early fourth quarter of the year due to the timing of holiday-related advertising and promotions leads to inventory build prior to that time and results in higher collections from clients in the fourth quarter. For example, in the fourth quarter of 2023, we generated $95 million of free cash flow and used it to reduce 2.0 times debt leverage. In 2024 we anticipate a similar seasonal pattern and intend to further reduce debt leverage to approximately 1.8 times at the end of this year, near the low end of our targeted debt leverage range of 1.75 to 2.25 times.

From 2020 to 2024, we expect to reduce net debt by over $600 million or more than 60%. And we are pleased that our strong balance sheet and commitment to debt reduction was recognized by Fitch Ratings, who recently revised our corporate credit rating outlook to Positive from Stable, indicating a potential future upgrade from our current B+ rating.

We reaffirm our full year guidance as shown on slide 16. Annual net sales are expected to decline 5% to 9%, compared to the prior year due to ongoing headwinds as previously mentioned. Full-year 2024 adjusted EBITDA is expected to be between $205 million and $245 million, with $225 million at the midpoint of that range, representing a 28 basis point improvement in adjusted EBITDA margin to 8.2%.

As we shared last quarter, adjusted EBITDA will be lower in the first half of the year as benefits from cost reduction actions will reach their full annualized amount late in the second quarter of 2024. We then expect sequentially higher adjusted EBITDA in the second half of 2024 compared to the first half of the year due to the full benefit of the restructuring actions combined with increased sales during our seasonal production peak.

We expect 2024 free cash flow to be in the range of $50 million to $70 million, with $60 million at the midpoint of that range. This year, free cash flow will be most impacted by a higher restructuring payments in the first half of the year, partially offset by reduced capital expenditures, with capital expenditures expected to be in the range of $60 million to $70 million. The primary use of free cash flow and cash proceeds from asset sales will continue to be debt reduction. And we reaffirm our net debt leverage ratio to be approximately 1.8 times at the end of 2024.

Slide 17 includes our key investment highlights as we continue to build 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. Our expanded offerings include the recent additions of In-Store Connect and Household Fusion. And there is a significant addressable revenue opportunity with both our large base of existing clients, as well as new clients.

In addition, our strong cash generation will continue to fuel our capital allocation priorities. These include investing and scaling our offerings, further reducing debt and returning capital to shareholders, such as our next quarterly dividend of $0.05, payable on June 7. And we also expect to continue to be opportunistic in terms of our future share repurchases.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Kevin Steinke with Barrington Research. Please go ahead.

Kevin Mark Steinke Q
Analyst, Barrington Research Associates, Inc.

Hi, good morning.

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

Good morning, Kevin.

Anthony C. Staniak A
Chief Financial Officer, Quad/Graphics, Inc.

Good morning, Kevin.

Kevin Mark Steinke Q
Analyst, Barrington Research Associates, Inc.

Yeah. It's great to see the ongoing innovation in terms of your service offerings, both In-Store Connect, as well as Household Fusion. I wanted to start out by delving into the In-Store Connect offering a little bit more, maybe how The Save Mart relationship came about. And then just the overall market opportunity you see there with that new offering?

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

Yeah. You know, it's an important new offering, because this is really something that is heavily talked about in the retail environment these days. It's not a new concept, but it's one that never quite took off yet. And that's where we – when you look at your typical retail media network, it's like Amazon, Digital, where they're serving up ads as you search for product and they get paid for those ads. But what's missing in the whole digital experience is that in-store experience being connected to digital. And so that's where we're going to – we're putting in, we're rolling out right now where you have nicely designed high-end screens, not just screens tacked on a wall, but that are strategically placed throughout the store, where we can work with then the CPG clients to serve up ads for their product, as the most important part of the journey is happening, which is when your intent is highest to buy something by walking through a retail store.

And so the goal is, is that we're going to create a very large network of a lot of stores, so that collectively across a lot of our clients, not just one or two, that we create enough eyeballs that it makes it very interesting for those who are buying advertising. Furthermore, our ability to manage that content is really important, because now we can start to use the underlying data of the specific region or store, as well as into the type of audience to serve specific ads to specific stores. And as we go down that sort of chain of building on the data, which is so important marketing today, we'll be able to expand that as things change by linking to things such as mobile, et cetera. And so really this is a game where all the merrier and Quad's been working on this concept for some time and DART was the final piece in it to kind of create some infrastructure to be able to do it.

And so back to Save Mart, we've had a great relationship with them. That team is a seasoned group of executives who have been at other places throughout their careers and because of the relationship we've had for a number of years, we were able to talk to the top and outline our vision and they very quickly said, we want to be a part of that, let's go, let's get going and let's start building it. And so we're in the process of rolling that out right now.

In addition, because it's such a hot topic, we have quite a few other retailers we're talking to right now that we're not ready to say more about, but that it will lead to a growing number of stores. And so what we're excited about is we've done so much work upfront on this that when we were ready, we're able to kind of leap and go and start executing right away and now get to scale for those clients. Does that make sense?

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.
Q

Yes. Absolutely. That's helpful. And I just wanted to follow up again on In-Store Connect, maybe just if you could give any detail on the mechanics of how you get paid or generate revenue from the offering, is it from the deployment or is there a performance based elements or a subscription based element? I'm just trying to get a sense as to the revenue model there?

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

Yeah. It's really based on like a lot of it CPMs. So we get a nice, cut off of the action that happens as the number of eyeballs come through the store. And there's lots of ways we can really start measuring what that traffic is doing using beacons and things like that. And so, yes, it's a pretty straightforward model in terms of how we get paid. And it's, sort of share and it's a revenue share between the different parties basically. There's different models in deployment and will be but, we're helping with installing it from a CapEx standpoint, which for us is makes a lot of sense, because we get paid back for that CapEx over a period of time, while making it quickly deployed with our clients because we make that part in their budgeting easy.

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.
A

And just Kevin, it is Tony, I'd add to that. So the deployment that you asked about and Joel talked about, there is revenue involved as we're putting up these screens and stars and then there can be CPM market or CPM charging or even package cost, depending on the number of screens and kind of the level of the service provided. And so we're really excited about the space. And Joel talked about our relationships with retailers for many years of printing are at the very top of the house on large dollar invoices and that gives us opportunity to bring new technologies like this to those same interested parties.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.
Q

All right. That's great. It sounds exciting. I wanted to move on to the new Household Fusion offering, which you talked about, saving clients 10% to 20% on postage costs. Maybe just what's been the reception of your client base to that offering? And do you think this is something that can spur more advertising mailings and some of the areas that have been cut back to higher postal rates? I know it's not going to completely offset the rate increases that have gone into place. But do you think it's something that can kind of jump start perhaps some of the spending from your clients coming back?

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

Yeah. I mean, first of all, it's been very well received. Again, when our customers are under cost pressure, they're very open to trying whatever it takes to kind of make a medium that is very effective, something that's manageable. It's these significant increases that the post office that has done, that is a real challenge. And by the way, the post office is hearing pressure from all corners of the earth right now, A, because of the performance of how they're getting mail through the network right now. And also now with the big rate increases, the Postmaster General was hauled in front of Congress just a couple of weeks ago to answer to it and hasn't given a lot of great answers. So there's a lot of pressure to bear. So that's one strategy we have. But postal fusion is using the same equipment that we use for co-mailing. So we already have a huge installed base to ramp this. And it's like we said, it's instead of making bundles that are in the sortation that the postman walks down your street and him stopping at your store and dropping each one singularly to you, in that bundle you may have multiple titles. And so we're wrapping those.

And so, yeah, it's been very well received and it's rolled out. The first roll out has been with publications and then we'll migrate to catalogs. In one day, we're working with the Post Office on this, be able to merge catalog and publication together in one package, including potentially direct mail. And so this is another story of the more the merrier creates even more savings. So September 2020 is like sort of the starting point, but offsetting that postal increase is really important.

Now, the other strategy, though, keep in mind, and that's why I like to being able to bring back examples of accounts we won, because it's one thing to win. It's another to show that our approach is not just producing the content for them, it's making the content more responsive. And so, cost is always offset the best by having an increase in response rate for your marketing spend. And so while I'm providing a mechanical sort of direct cost offset in getting mail into the Post Office, we're also using our data stack in all our analytics to work with our clients to increase response rate. You don't have to increase response rate of mail that much to offset the increase. And so that's why I was excited. And we will continue where our clients allow us to share the data, we will continue to share not only examples of winning, but then examples of what winning did. Because, again, our whole approach at Quad is, yes, to produce content efficiently and distribute it no matter what channel. But the bigger strategy is to help our clients win by using data at the center of the whole conversation to drive responsiveness of those media assets.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc. Q

Okay, great. That's helpful. You mentioned the pressure being applied to the Post Master General and from all different angles there. But at this point, I think you had talked about previously the postal service planning another rate increase for July, I believe.

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

Yes.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc. Q

Is that still on the table as far as you know, or what, any update there, I guess?

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

Yes, it's still on and we're assuming it goes through. There are a lot of questions around it on whether or not, it's appropriate or it should be delayed. But right now they have the authority to do it. And so we're planning for that. So the rollout of our Household Fusion is really well timed. And I think different than last year. This is really important because if you look at our year-over-year, first quarter revenue being down, remember a big chunk of that is because in the first quarter of last year, we hadn't hit that second increase they did in July. And no one really had that in their budget at the time. So that's where we saw a pullback because of that postal volume.

If you don't have it in your budget, it's your biggest cost. You got to mail a little bit less for a while. And so what's different this year is people are aware of it and therefore they've been contemplating it through budget season. So far and we're keeping a very close contact with our clients to see what they're going to do. But we're, I say cautiously optimistic, that people are managing through it, but we will stay close. And so that's, again, as you get closer to the increase, there's lots of factors that come into how our customers decide how much to mail. It's not just postal, it's also what's the economy doing? And so we're and how is the consumer responding? But that's the big difference between this postal increase and the one last year.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, great. Understood. I believe last quarter, the fourth quarter conference call, you had mentioned perhaps some signs of increased demand coming back from your financial services clients. I know there's been an impact there from the higher interest rates, but maybe any update on spending trends you're seeing there from your clients in the financial services space?

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

A

Yeah. I think, there's – it's kind of a mixed story, I'd say, figure socially with personal lending and things like that probably still a little bit slow, but we're seeing others start to put their toes back in because ultimately you still have the market, right. And you can stop for a while. But realistically, I think, depending on how the markets evolve here, people will start sticking their toes back in. And so we're seeing activity from that standpoint, which is a good sign.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, great. I also wanted to ask you about Rise and just maybe delve into you talked about in the call, but what differentiates that agency offering and what you expect to gain from it in the marketplace?

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

A

Yeah. So Rise Interactive previously was our digital agency, which worked with our clients for placement of our digital media. But at Quad, we also have media and other area. So traditional media, we buy a lot of media on behalf of our clients and traditional media and then separately, well, first of all, Rise Interactive also uses a ton of analytics and data to help with that digital offering. But we also have a ton of data analytics and data stacks in other places of the company. And so ultimately, we're an integrated company and as we've developed these things, each one is kind of matured. The next step is that data needs to be in the center of all media, because it's about making sure you're sending the right message to the right person at the right product at the right time, but also in the right sequence across the media landscape.

And so we combined all that together, not only Rise, but the other assets we had, as part of that total media offering. So think of it as Rise now is the umbrella for all those things with data at the center to drive what we do for our clients on the media side to get more bang for their buck and increase responsiveness out of that media spend.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay. Makes sense. And I guess lastly here, I wanted to ask about, Tony, that the asset sales, so the asset sales, I think was you had $23.9 million on the slide for 2024. That's just what's occurred thus far. And you would expect more this year. Is that the way to read that?

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah. That's correct, Kevin. We're going to update that as we go along. The timing of asset sales, such as selling a building is sometimes hard to predict. So we'll just update that as we go along. It includes the $22 million from the sale of Manipal in that number. And then in the first quarter, we sold about $2 million of equipment. So that's what that number is made up of.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you. I will turn it back over. Thanks.

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

A

Thanks, Kevin. Operator.

Operator: The next question comes from Barton Crockett with Rosenblatt Securities. Please go ahead.

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

A

Good morning, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Hey, great. Thanks.

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Hey, Barton. Good morning.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Good morning. Thanks for taking the question. And, yeah, I guess one of the things on the asset sales, I was kind of curious about, you guys have announced some closures of some facilities here, right? So you've got the Saratoga Springs, I think over 1 million, I think square feet closing in January. You did Effingham, Illinois in

October, which I think was another 564,000 kind of square feet. So you're looking at a good 1.5 million plus kind of square feet reduction, which seems kind comparable to the square feet reduction you guys had prior like 2020 until like early 2023, you closed a couple of facilities which were comparable. Those earlier closures I think played a role in your ability to generate, I think about $170 million or so of property sales. And I'm just wondering if, in fact, that that $170 million was correlated to those closures and if there's a possibility that what you've got on deck here could be at some level kind of comparable in terms of the ability to generate property sales for you guys?

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Barton, this is Tony. So that the $170 million that you're referencing, I know we had one year, 2021 that was high in particular and that was made up of a few items that were in there. There the sales of buildings were part of that. That year we also sold a small part of our logistics business called QuadExpress for $40 million. That was part of that. We did a couple of sale leasebacks of plants in that year, with West Allis and Chalfont also part of that number. When we look back, historically, just to maybe give you kind of a little bit of a rule of thumb, when we've got these 1 million square foot plants, they do go for pretty good value, right, like it's a noticeable component of that $166 million. Hard to tell a case by case where it will be for each one. But it does have the potential to move the needle towards then putting that to pay down debt, which is historically what we've done and continues to be our top capital allocation priority.

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

A

And so let me just add too some of the background on this. So like when you look at Saratoga, a large plant in the Northeast, we had Merced out in California, part of this is the changing need from the clients where some of the stuff like originally Saratoga was for weekly magazines when they were a big deal. We augmented that with catalog work. But now as we look at the rollout of our Fusion mail, our product, you know, it's hard to have those regional a plant like that. So we really wanted to concentrate that work back into a central location to feed the building is much together as possible. So that's why we were able to do that. And some of the investment, like those two big presses, we talked about, was making that possible in the core of it. So there's some methodology behind it besides just some of the decline that we've seen.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And the more recent or the late October or the October 2023 kind of closure in Illinois, Effingham, have you reaped meaningful kind of proceeds from that in the figures already reported for all of 2023? Or would that be largely to come in 2024 and beyond?

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah, yeah, the Effingham facility is for sale still at this point, Barton. So not yet in previous proceeds, same will go for Saratoga and our Sacramento location. The question is just when? Okay.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. That's helpful. Now, I wanted to switch gears a little bit. The economic environment, interest rates seem to be staying higher for longer. You guys touched on this a little bit before, but I wanted to drill on a little bit more detail there. Is this having a meaningful impact, this kind of higher interest rate environment on your financial services? Which I think have been a point of some difficulty earlier. And with mortgages, auto loans, I would think would be impacted and affect you guys potentially. But you seem to indicate some optimism there. So sort of you could talk about what you're seeing there?

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

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Yeah. I think I was hitting on this before, but also keep in mind in that was – there was a big loss of a piece of work because of a large bank exiting going into consumer banking. And so that one was a little bit different in that, and but it was meaningful to us because we did a lot of work for them. And so that was just a change but I'd say that, yeah, like the Lending Club type of work, the car loan stuff is probably lagging a bit, whereas just marketing for other parts of financial services. And another place of interest is, I think the insurance industries where there's a fair amount of activity for us as we think forward on the direct mail side.

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah. Yeah. So I was going to add there on direct mail, at the end, I was going to say the same, that's Barton, If you look at our revenue pie chart, direct mail is 12% of our revenue mix. And that's to give you some scale, that's primarily where this pressure is concentrated.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. That's helpful. And then, taking a look at your guidance for the year, so you guys are reiterating the guidance for net sales down 5% to 9%, adjusted EBITDA at the low end, kind of I think down 12% at the high end up 5%. That will obviously suggest what you said, which is the first quarter is the worst quarter and things will improve over the balance of the year. But I wanted to get a little bit more kind of finer point on the improvement that you're seeing. Do you see positivity in your kind of outlook for the balance of the year in any of these quarters to come in revenue or in EBITDA? Do we see growth in this outlook that you're giving for the year?

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah, I'll say, Barton, that, implicit in our guidance or the midpoint of the guidance is $225 million of adjusted EBITDA. It's down $9 million from 2023. Our first quarter was down $9 million EBITDA from 2023, right. So what we're inherently saying there is that the rest of the year we'll have flat adjusted EBITDA. In some of those quarters, I think you could see year-over-year increases. But when you look across the remaining nine months, you're going to see, we think you're going to see stable adjusted EBITDA.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. That's helpful. And then just I guess one final thing, you guys were talking about the in-store network opportunity. It's not a CapEx. Do you guys put those screens in and fund that for your CapEx or are your partners paying for that essentially? And this is maybe a pass through cost. And you actually own the screen, does the store own them or do you own them? Just trying to understand a little better, the type of out of home network you're looking to create here?

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

A

Yeah. There's going to be a couple – probably a couple of models or a mix of that. And we will be funding some of the CapEx and owning the screens for some of them, but get paid for that. And so it's stuff that the revenue itself helps to offset. In other cases, they want to control it and they want to do it. We have an existing customer who is fronting the CapEx for that and has for some time through our acquisition of DART.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay.

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

A

But it's not – this is not like buying a printing press. It's not that is significant as some of the CapEx we do elsewhere.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Glad to hear that on the screens. And great. Thank you very much. I appreciate it.

Anthony C. Staniak
Chief Financial Officer, Quad/Graphics, Inc.

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<A>: Thank you, Barton.

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

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Thanks, Barton. Operator?

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

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

Well, thank you, everyone, for joining today's call. We look forward to seeing you in future quarters. Have a good day.

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