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Quad/Graphics, Inc. (QUAD)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Quad's First Quarter 2025 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 to business update, and Tony will follow with a summary of Quad's first-quarter 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 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 2025 guidance. We continue to build momentum as a marketing experience or MX company with a distinctive suite of solutions that seamlessly integrates creative production and media across digital and physical channels as shown on slide 3.

We are committed to growing our offerings, including strategic investments in innovative solutions and superior talent while managing for economic uncertainties. We continue to closely monitor the potential impacts of tariffs and recessionary pressures on our clients' businesses. Quad imports paper from Canada as well as books we manufacture in our own facilities in Mexico for our US clients. Currently, these products are both compliant under the USMCA and, therefore, are exempt from tariffs. Our procurement teams are in various stages of evaluating or reallocating sourcing options for the remaining items in our supply chain that are affected by tariffs, which represented less than 11% of our 2024 procurement spend, including 1% of spend with China. While Quad's supply chain currently has limited direct exposure to tariffs, we recognize our clients may be impacted to varying degrees. We are staying informed of our clients' supply chains for potential disruptions, as well as fluctuations in consumer demand to see how they may affect clients' mission-critical marketing plans.

In addition to tariffs, postage continues to impact many of our clients as it represents the single largest marketing cost for mailers. Earlier this month, the US Postal Service announced details behind its next-pager postal rate increase expected to take effect on July 13. We estimate many of our mailing clients will experience an average of 10% increase in postage cost. Data shows that massive rate increase drive away the very volume needed to support a healthy postal service. However, the USPS has agreed to test volume elasticity specifically with catalogers through a special nine-month promotion beginning October 1. This promotion will provide catalogers with a 10% discount. With additional USPS add-on promotion, catalogers could realize up to 12% off published rates during the promotional period.

Turning to slide 4, Quad continues to deploy a strategic, two-pronged approach to help our clients mitigate the impacts of ongoing postal rate increases. Our innovative approach focuses on maximizing savings while increasing response rate. In 2024, we launched Household Fusion, a first-of-its-kind postal optimization program that bundles multiple magazines from various publishers or catalogs from different brands destined for the same household into a single package. We continue to see strong interest and growing participation among magazine publishers and marketing mailers in this cost-reducing solution. In addition, Quad recently acquired the co-mail assets of Enru, a third-party co-mail and logistics solutions provider. The acquisition benefits mailers by expanding our co-mail postal optimization solutions and increasing our co-mail volumes which drives additional postage savings opportunities through economies of scale for us and for the whole industry.

Moving to slide 5, beyond mailing efficiencies, we continue to invest in solutions that drive marketing effectiveness, which is another way to offset cost by increasing response. To do this, we have built a superior household-based data stack representing 92% of all US households to help all marketers, including mailers, create smarter audience segments that ultimately yield a higher return on investment. We also have made investments to ensure that our data stack is future-focused and AI-ready, including a partnership with Google Cloud to leverage its AI optimization capabilities and large language models along with others. We are creating new AI-driven solutions that tap into our data stack and seamlessly connect it with clients' creative and media assets to further enable personalization at scale.

Quad's expanded focus on generative AI is built upon decades of leveraging AI-driven robotic process automation and cognitive insights for improving everything from administrative processes to scaled content creation, smart planning and more. Our powerful data capability helps our clients connect the right message with the right audience at the right time, whether in the home, in-store, or online. For example, our innovative At-Home Connect solution drives consumer engagement by modernizing the direct mail channel with an intelligent, automated platform that connects online engagement with offline impact. Our solution makes it easy for marketers to trigger personalized direct mail based on online consumer interactions or life events, all with the scale, automation, and efficiency of digital marketing.

Advancing to slide 6, talent continues to be a strategic differentiator for Quad. We recently announced that Tim Maleeny, Chief Client Strategy and Integration Officer, will expand his role to include President of Agency Solutions. Tim is a well-known and respected leader in the advertising and marketing services industry. He succeeds Eric Ashworth, who is moving on to another career opportunity after playing an instrumental role in Quad's transformation over the past 10 years. We thank Eric for his many contributions to Quad. Tim is well suited to lead the next evolution of our Agency Solutions offering. Before joining Quad last November, Tim served as Chief Strategy and Innovation Officer for Havas North America. He also has held brand strategy and executive leadership roles at Ogilvy, R/GA, and Deloitte. Tim's ability to think across agency disciplines and simplify the complexities of marketing a digital-and-physical media channels will further strengthen and grow our integrated data, media, creative, and marketing services business.

Moving on to slide 7, we provide an update on In-Store Connect by Quad, our omni-channel retail media network, which generates direct consumer connections for retailers and brands in brick-and-mortar stores where approximately 80% of all retail sales still occur. Over the past year, Quad is focused on building out a nationwide network for mid-market grocery clients. Expanding on the strong base of regional grocers we already have in place, we added two new retailers in the West and Midwest during the quarter. Further, The Save Mart Companies, the largest private regional grocer on the West Coast, which launched In-Store Connect in 15 stores last year, intends to expand to an additional stores this spring.

Beyond grocers, we are also helping other retailers create their own internal store – in-store retail media ecosystems, as shown on slide 8. For instance, one of the nation's largest home improvement retailers installed more than 550 of our digital screens in approximately 100 of its stores. With our support, the client is elevating the shopper experience by deploying targeted, engaging content directly in aisle, the most critical moment in the purchasing experience. This client exemplifies how our extensive marketing expertise positions us as a highly effective strategic adviser. For more than 20 years, Quad has manufactured print ad circulars for this home improvement retailer. Over time, we've steadily expanded our scope of work. For instance, a dedicated near-site team of 18 Quad employees provides strategic marketing support directly alongside the client's own marketing group. This includes pre-media production for various physical and digital assets. We also leverage our advanced variable imaging technology to personalize our client's in-store promotional signage at the store level, a differentiated Quad service offering. Our work for this retailer is a clear example of the stickiness Quad creates through its relationships. It also demonstrates the way our integrated solutions function as a value multiplier when used together.

Transitioning to slide 9, we share how our integrated agency approach is driving better business outcomes for Valvoline Instant Oil Change. The company has been a long-standing Quad direct mail client, and our trusted relationship has led to additional work that now includes creative and media services with Quad's Betty and Rise agencies. Earlier this year, Valvoline Instant Oil Change hired Betty as one of its creative agency partners. Already, our creative group has generated external signage for the client's new stores and is actively supporting multiple business units with content across social, digital, e-mail, and point-of-purchase media channels. Betty's fresh approach to creative is also helping our client break through in market clutter to stand apart from its competitors, a business imperative as we near summer and the peak driving season.

Amanda Ouellette, our client's Senior Brand Marketing Manager, shared her enthusiasm, stating, we've kicked off a lot of work, and the Betty team has come to every assignment with enthusiasm, thoughtfulness, and clear communication on project plans. It's refreshing to have new perspective and creative work for our company while also meeting us where our – where they are as a brand and elevating it.

Meanwhile, Rise Media Agency has begun managing Valvoline's paid search. Using insights from an audit of the client's past paid search strategy, Rise is further optimizing the channel to drive consumer engagement. Our integrated service team's collaborative approach continues to elevate both the efficiency and effectiveness of this client's marketing efforts. For instance, our Betty Agency will produce new creative assets for search banners that our Rise Agency will deploy in early May. We look forward to creating additional cross-channel synergies as our integrated work with our client grows.

Before I turn the call over to Tony, I would like to acknowledge that we completed the sale of our European operations in the quarter. I thank our former employees for their many years of dedicated service. You are knowledgeable, experienced, and appreciated, and I look forward to seeing where you grow from here. I would also like to recognize all our current employees and thank them for their continued hard work and commitment to relentlessly innovating for our clients. Through your efforts, we are simplifying the complexities of marketing and driving better business outcomes for our clients.

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 10, we show our diverse revenue mix. During the first quarter of 2025, net sales were $629 million, a decrease of 2% compared to the first quarter of 2024 when excluding the February 28, 2025, divestiture of our European operations. The decline in organic net sales was primarily due to lower paper, logistics, and agency solutions sales, including the loss of a large grocery client which annualized at the beginning of March 2025. Comparing our net sales breakdown between first quarter 2024 and 2025, our revenue as a percentage of total sales increased 3% in Latin America, with growth in Mexico, a strategic extension of our US print platform, and 2% in our targeted print offerings driven by catalogs and direct marketing. These increases were primarily offset by an expected revenue mix decrease of 4% in our large-scale print offerings due to organic declines in retail inserts and magazines.

Slide 11 provides a snapshot of our first quarter 2025 financial results. Adjusted EBITDA was $46 million in the first quarter of 2025 as compared to $51 million in the first quarter of 2024. And adjusted EBITDA margin declined from 7.7% to 7.2%. The decrease in adjusted EBITDA was primarily due to the impact of lower sales, increased investments in innovative offerings to drive future revenue growth, and the divestiture of our European operations, partially offset by benefits from improved manufacturing productivity and savings from cost-reduction initiatives. Adjusted diluted earnings per share doubled in the first quarter of 2025 to $0.20 per share as compared to $0.10 per share in the first quarter of 2024, primarily due to higher net earnings, including lower depreciation and amortization, as well as lower interest expense due to reduced debt. Free cash flow was negative $100 million in the first quarter of 2025 compared to negative $70 million in the first quarter of 2024. The decline in free cash flow was primarily due to the timing of working capital, including proactive inventory purchases of paper and other materials made in advance of potential tariffs, partially offset by a $7 million decrease in capital expenditures.

We show the seasonality of our free cash flow and debt leverage on slide 12. Due to the seasonality of our business, we typically generate negative free cash flow in the first nine months of the year, followed by large positive free cash flow in the fourth quarter. Our seasonal production peak occurs in the late third quarter and early fourth quarter of each year due to the timing of holiday-related advertising and promotions. This leads to inventory build prior to that time and then results in higher collections from clients in the fourth quarter. In 2025, we anticipate a similar seasonal pattern for our free cash flow and debt leverage. When removing the impact of seasonality, our net debt has decreased by $81 million from March 31, 2024 to March 31, 2025.

Our free cash flow, in addition to proceeds from asset sales, fuels our capital allocation strategy as shown on slide 13. As previously mentioned, we completed the divestiture of our European operations to Capmont for a total potential value of €41 million or approximately $42 million based on February 28, 2025, exchange rates. We also continue to make progress on the sale of property, plant, and equipment from closed facilities. On April 21, we completed the sale of our 65,000-square-foot Sacramento, California, building for approximately $5 million. And in response to lower expected demand for retail inserts, earlier this month, we announced the closure of our 145,000-square-foot Greenville, Michigan, facility. We expect to generate future cash proceeds from the sale of the Greenville building, as well as three additional owned facilities that are currently for sale.

With our strong cash generation, we will continue to increase our growth investments as a marketing experience company such as our recent acquisition of Enru's co-mailing assets, maintain low debt balances, and return capital to shareholders through our quarterly dividend and share repurchases. This year, we increased the dividend by 50% from 2024, and year-to-date in 2025, we repurchased 1.2 million shares of Class A common stock for $6.7 million. This brings our total repurchases to 7.2 million shares since we commenced buybacks in 2022, representing approximately 13% of Quad's March 31, 2022, outstanding shares. We believe this represents strong value, and we will remain opportunistic in terms of our future share repurchases.

Slide 14 includes a summary of our debt capital structure. At the end of the first quarter, our debt had a blended interest rate of 7.1%, and our total available liquidity, including cash on hand, was $209 million with our next significant maturity of $193 million not due until October 2029. As a reminder, given uncertainty regarding interest rates, we entered into two interest rate collar agreements for $150 million notional value during 2023. The interest rate collars cap our exposure if we were to return to a rising rate environment. And with the collar instruments, we also benefit from all interest rate reductions down to approximately 2% [ph] SOFR (00:18:50). Including these interest rate collars, we would pay lower interest expense on approximately 87% of our March 31 debt if the Fed decreases rates.

We reaffirm our 2025 guidance as shown on slide 15. We continue to expect organic net sales to decline 2% to 6% compared to 2024, excluding 2025 net sales of $23 million and 2024 net sales of $153 million from our divested European operations. Our 2025 net sales guidance represents sequential improvement from the 9.7% net sales decline in 2024 compared to 2023 as we continue to execute on our long-term financial goals, including returning to net sales growth. Full year 2025 adjusted EBITDA is expected to be between $180 million and $220 million with $200 million at the midpoint of that range. We anticipate lower adjusted EBITDA in the second quarter of 2025 compared to the first quarter of 2025. And then we expect sequentially higher adjusted EBITDA in the third and fourth quarters of 2025 during our seasonal production peak.

As Joe previously discussed, we are closely monitoring the potential impacts of tariffs and recessionary pressures on our clients, which could affect advertising and marketing spend, including print volumes. As we have always done in times of economic disruption, we will remain nimble and adapt to the changing demand environment while maintaining our disciplined approach to how we manage all aspects of our business. This includes events such as the recent Greenville plant closure to rationalize our platform to match demand.

We expect 2025 free cash flow to be in the range of $40 million to $60 million, including capital expenditures that are expected to be in the range of $65 million to $75 million. And finally, our net debt leverage ratio is expected to decrease to approximately 1.5 times by the end of 2025, achieving the low end of our long-term targeted net debt leverage range of 1.5 times to 2.0 times. As a reminder, we may operate above this range at certain times of the year, primarily due to the seasonality of our business.

Slide 16 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 such as Household Fusion, At-Home Connect, In-Store Connect, and our proprietary household-based data stack discussed earlier, there is a significant addressable revenue opportunity with both our large base of 2,100 existing clients as well as new clients. In addition, our strong cash generation will continue to fuel our capital allocation priorities. These include investing in innovative offerings to drive future revenue growth, maintaining low debt leverage, and increasing returns to shareholders through our next quarterly dividend of $0.075 payable on June 6. 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] Our first question comes from Kevin Steinke with Barrington Research Associates. Please go ahead.

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

Good morning, Kevin.

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

Thank you and good morning. Wanted to start out by just talking about the external environment. I thought it was a very solid start to the year, first quarter coming in at least ahead of external expectations. I know you said they were in line with your expectations, but the organic decline of minus 2% on the top line was at the most favorable end of your minus 2% to minus 6% outlook organically for the full year. But I guess, obviously, some of the more disruptive headlines related to tariffs and the macro came at the beginning of April. So, it sounds like you're monitoring that closely. But have you seen any notable change in the demand outlook here early in the second quarter?

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

Yeah. I mean, I think – still some of the organic decline that we see like in catalog and maybe publications. Again, they knew – they know that this 10% price increase happens in July, so were kind of as expected. But when I think about on the marketing side and what clients are doing, we're not – so they bake in some of that into their plans already. But we haven't been seeing like a lot of adjustments right now. I'd say we're seeing some indications of dislocation. And what I mean by that is we've seen a few catalogers and a few retailers actually adjust marketing plans based on the tariffs, meaning, they – in one case, they're not sure they can get the product out of Vietnam in time for the season, so why market it? They had already produced product in Vietnam, but now with everybody trying to get in there, and it's an underdeveloped – still an underdeveloped platform, they just worry about the availability of capacity.

In other cases, we've seen people not know how to price products that are coming. And so, we've seen some adjustments there, but it's not enough to call it a trend. And so, I think that a lot of our customers are very anxiously awaiting what develops in the tariff world. And my concern is, obviously, the same as everyone else; is – does this lead to a rapid slowdown in the economy? But also, it's really about what are the unintended dislocations that cause changes in how our customers act. And so, I think, as much visibility as we have, we haven't seen the pullback that maybe some people would think would happen. Now, again, my crystal ball is probably as [indiscernible] (00:25:30) as yours, but I think everyone is waiting for more direction on what's going to happen here.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Right. Okay. That makes sense. Thank you for that. And so, obviously, you talked about the coming postal rate increase in July, but you also talked about the Postal Service doing some testing of price elasticity for catalogs to see how volume, I guess, reacts to that. I think you talked about that there's been a leadership change at the Postal Service. So, I'm wondering if you're taking that testing as some sort of maybe acknowledgment or change in the views at the Postal Service where maybe there'll be some future, more favorable policy in terms of just pricing and how they look at pricing and the trade-off versus volumes.

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

A

Yeah, I think they're obviously hard to understand sometimes at how they come up with what they come up with. But I just came back. Sunday-Monday, I was at the National Postal Forum in Nashville where all the postal leaders were. We have an acting postmaster general because DeJoy had stepped down. We're waiting any day now for the announcement of a new postmaster general. Our understanding is that the White House is weighing in, hopefully yesterday or today, on who the board of governors is picking as their candidate. So, that will be telling in terms of do they rethink a flawed plan that was put in place by the previous postmaster general where they felt that they – with volumes down, let's just make it up in pricing, and that's really hurt our industry.

I was able to talk to some of the executives the day before yesterday, including the head of pricing. And they admit that in the catalog side, because catalog could be much more variable and much more sensitive to cost changes because people just pull back on prospecting if they get a big hit and, ultimately, that hurts the whole category. And so, that's why they're putting in this – so, the rates increase by 10 or so percent in July. They go into effect, and then you could qualify for basically offsetting that increase if you're a catalog, but not till October. So, it's going to be a little wonky, but that's a big deal because, like I said before, I think people built in the 10% for the entire year plan. So, suddenly, there's an opportunity to kind of do something to get ahead of it. We hope that that creates opportunity as long as we don't get more noise in the economy in the second half.

The other thing I'd also take note of in first quarter is, well, I made the comment that some of the organic decline with catalog and maybe publication is still impacted by knowing that increase is coming. We're still winning great new clients. And one really great place to highlight is our direct mail group, which volume-wise was up 14% in the quarter or 6% in sales, and that was somewhat skewed towards some of the financial sector, which, if you recall, a couple years ago, we were way down in direct mail when interest rates went crazy, and the financial sector pulled back. So, some great signs of winning work based on the MX experience because almost all the direct mail wins we have are not single product or service wins. They're across multiple large offerings, which is just – it sort of speaks to what we've been talking about for years in the MX experience.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

All right. That's great to hear. Good color there. So, you made a – looks like a very small acquisition of Enru and their co-mailing assets, but you've obviously been very good at developing your own co-mailing solutions internally. But just kind of curious what that acquisition might have brought to you that you didn't have before that maybe made more sense to acquire versus building internally.

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

A

Yeah. Yeah. I think Enru was previously – originally owned by LSC, and they did co-mail like we do. They also do third-party co-mail for other printers, which we do as well, and we'll continue to do because it's very important that the industry as a whole keep making sure that this medium is viable for our customers. And co-mail and working to be the most efficient for the customer base is at the heart. They bring a little bit more – a different type of capability in what is called more of a high-density approach where you can play with [ph] mailers (00:30:49) and merge things together to get a different discount rate in certain places where you can have a high-density factor.

And so, by us bringing that in, we're not only bringing more volume together for the industry, that's important to keep the discounts up, but we're also combining different capabilities together to further enhance it for everybody. And so, I see the combination of the high-density and then more the five-digit that we do to really work together to enhance it for our customers and collectively the industry's customers. And then also it comes with some equipment that we've been able to upgrade parts of our platform with. But, yes, it's a small acquisition but important to our clients.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, that's helpful. And you mentioned a couple new relationships for In-Store Connect with some grocers. Just any comments on maybe the size of those chains and the opportunity to expand with them. And just relatedly, how many stores are you in across all your In-Store Connect clients now as that offering continues to roll out?

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

A

Yeah. Yeah. I've always said this space, it's a race for eyeballs. So, the more eyeballs you can get exposed to by being in more stores, but also in the mid-market grocery space, by tying a lot of them together so they collectively have more eyeballs to offer to the CPGs, that's what's really important. We started out with 15 stores, and now we're at over 45 stores with 30 more coming from the two new customers that we just added. And I'll say that one of them is really interesting – or they're both interesting, but one of them is fairly large on the West Coast and is heavily focused on the Hispanic population, which is really important to CPGs. And then another one is a different category of grocer in the smaller size, but they're all trying to figure out how to play in this. And they all – all these smaller-sized grocery network, they like to coordinate with each other, to look for opportunities for things like how do we market better as a small grocer to come together.

And so, our race is to build out the geography across the country and to get further up in number of stores, as we've said in the past. As an example, if you can get to 800 stores, that's the equivalent of a Monday night football audience, which is really important. So, we feel good about it. I think that every grocer is talking about it.

Who doesn't have it? CPGs are talking about they're all just trying to figure out how to get there. And they're all going through that.

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

A

Yeah. And, Kevin, it's exciting as well that The Save Mart Companies is expanding beyond their initial proof-of-concept into a second phase.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Yeah, thanks. Thanks for that. That's encouraging. I appreciate all the good answers, so I'll turn it back over.

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

A

Okay. Thanks, Kevin. Operator?

Operator: And the next question comes from Barton Crockett with Rosenblatt. Please go ahead.

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

A

Good morning, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. I'm not...

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

A

Hi, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Good morning. Good morning, guys. So, I wanted to drill in a little bit more into the cadence just given all of the balls up in the air with the tariff situation and everything. So, you guys started to lap the headwind from the loss of the grocer client in the second quarter. That would suggest that, all else equal, that you could see an improving kind of revenue trajectory in the second quarter. I'm not sure that's consistent with what you were saying in terms of quarterly cadence, but I was hoping you could address the puts and takes around that for the second quarter.

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

A

Yeah, Barton, this is Tony. So, as we look out to the second quarter, we think that both revenue and EBITDA will be lower than the first quarter. And that, to your point, is despite the lapsing of that grocery that we've been talking about for the past year. The second quarter for us, the early summer is typically a pretty low seasonal point for us. And then starting around August, things really start to kick in for our busy season. So, that kind of gives you more of the cadence for the year.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And is that deceleration in the second quarter? I mean, the seasonal thing happens every year. So, does that suggest that there's just been some kind of impact on demand from the tariffs perhaps in the second quarter or anything you can point to that would explain that?

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

A

Yeah. I think to Joel's earlier point, we've seen some early related impacts from tariffs, but I would attribute this more to seasonal impacts between years.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And in terms of the holiday season, which is the – you said the most important for your [ph] cash or your (00:36:11) business. There's a lot of talk about supply constraints potentially being an issue in the Christmas season. When do you – when would your clients tell you if they need to be in a big reset because they don't have the product? Is that something that would just come very close to before you'd send the mailings out, or how much lead time, how much visibility do you get from your clients?

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

A

It's hard to answer that because no one's really been in this situation before. It's kind of like you come into COVID, and everyone's like, we don't have a playbook for this. I don't think people have a playbook for massive tariffs across the whole world potentially hitting them, as well as the uncertainty of what's real and what's not. What's going to be pulled back? What will stay in place? So, I'd love to have a smarter answer, but I think everyone's in the same boat here. This is an experience that people are – it's like they need more cars to be turned over to understand how to answer that question.

I mean, I certainly think the administration isn't interested in totally killing the economy, but they are also very interested in getting to what they would quote as good deals for the United States. The rest of us are just waiting to see what that says. And so, it's a little bit hard to predict client by client because they're all in very different boats. Some are extremely exposed to China, for instance. A lot of them have already moved stuff to other places. And a lot of them may not be impacted the same way. So it's – it's not going to be a one-size-fits-all answer because our client base is so broad-based in different categories.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then just one other question on this. The one category that's been flagged by the digital marketers are these retailers that use the de minimis shipping exemption, presumably people like [indiscernible] (00:38:15). Do you guys have much exposure to that?

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

A

We do not. We do not. And I do think that that's one that's going to be one to watch because, obviously, that's going to change the dynamics there.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then one kind of final thing. The – I'm just wondering if you could talk a little bit more about the work with Google on artificial intelligence. And just in terms of a description of how impactful this is, I mean, it's – certainly, AI has driven some transformative kind of improvements in direct marketing performance for some of the digital guys, thinking like Meta maybe, arguably [ph] AP11 (00:39:00), you guys are kind of a different type of model but the direct marketer. I know you're using it for GenAI, but are you seeing any improvements in terms of your ability to kind of target and get a return on ad spend that's tied to this?

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

A

Yeah. I mean, you think about it as there's kind of layers to how we use the data stack. And the most important thing that we've done and which is happening as we speak is the rollout of what we call Audience Builder 2.0. And it's literally the tool set for you to be able to tap into the big data stack, which is not just transactional data like other people have, but it's our passion scores that are made up of knowing the content that's going into the mailbox. And so, the data sits in Google Cloud. We've used other people like Snowflake. So, you take the AI sort of large language models, and they sit above the data stack.

But the important thing is that you have a tool set to be able to effectuate it, to be able to pick audience. And that's built by us in conjunction with having those AI language models available to turbocharge it. And so, I'm very pleased at the rollout that we have going right now because that's actually what allows us to sell it out into the marketplace. And so, we'll see an acceleration of the use of our data assets because that was – we had a previous tool that wasn't as sophisticated to be able to handle the amount of attributes that we have now. And so, now Audience Builder 2.0 is that interface that allows us to completely access for our clients a very complicated dataset.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay.

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

A

And to your point, yes, we are seeing – in the case studies we are developing, we are seeing a strong performance by the data from a responsiveness standpoint.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. That's helpful. Okay, that's it for me. Thank you, guys.

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

A

All right. Thank you, Barton. Operator?

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

Joel Quadracci

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

Okay. Thank you, everybody, for joining today's call. I want to close by reiterating that our integrated marketing offering continues to be a competitive differentiator and a key driver behind the momentum we are seeing as an MX company as we set new standards for the industry. Not only do we remove friction from whenever it occurs in the marketing journey, but we optimize media and marketing performance through integration. With that, thank you again, and have a great day.

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