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Quad/Graphics, Inc. (QUAD)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Quad's Second 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 earning 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 will now turn the conference call over to Katie Krebsbach, Quad's Senior Manager of Investor Relations. Katie, please go ahead.

Katie Krebsbach

Senior 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 second quarter and year-to-date 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. Second quarter results met our expectations and we continue to differentiate ourselves as a marketing-experienced company that simplifies the complexities of marketing for brands and marketers. Our distinctive offering shown on slide 3 includes a suite of integrated solutions for creative production and media backed by intelligence and tech across all digital and physical channels. We continue to invest in our strategic growth areas including innovative solutions and superior talent to stay ahead of industry trends and execute faster, better, and with more agility.

Quad's overall supply chain continues to have a limited, direct exposure to tariffs. Our largest import is the paper we bring in from Canada as well as we manufacture books, we manufacture in our facilities in Mexico. These products are compliant under the USMCA and our expectation is that they will continue to be exempt from tariffs. During the second quarter, we did not see a significant pullback from clients due to tariffs or inflationary pressures. However, we continue to closely monitor for potential impacts on our clients given the widespread uncertainty of when and how tariffs will ultimately be implemented. We are paying particular attention to our clients' supply chains for potential disruptions, as well as fluctuations in consumer demand that may affect their mission-critical marketing plans.

Rising postal rates also continue to challenge our clients. But a special nine-month USPS catalog discount launching in October offers some relief. This 10% discount aims to test volume elasticity within the catalog vertical. We appreciate the USPS agreeing to this test, which follows a recent study from the Postal Regulatory Commission confirming that rising rates negatively impact mail volume, a long-held view within Quad and other industries that rely on the USPS services to sustain essential communication and commerce. The PRC also has acknowledged for the first time that the current system is not meeting objectives, reinforcing the need for a sustainable approach. We are excited to welcome David Steiner as the recently appointed Postmaster General. He brings with him a compelling blend of operational expertise, financial discipline and strategic vision, as well as an employee-friendly management approach at a critical time for the USPS. Quad looks forward to continuing our legacy of strong collaboration with the USPS leadership to ensure print remains a valuable part of the marketing ecosystem.

We continue to offer a two-pronged approach to help our clients mitigate the impact of postal rates, which remain the single largest marketing expense for mailers. The first prong is to provide innovative postal optimization solutions to maximize savings. Quad offers a full suite of postal solutions including innovations like Household Fusion in which we bundle multiple magazines from various publishers and catalogs from different brands destined for the same household into a single package to reduce costs and expanded co-mail capabilities that drive additional postage savings opportunities through economies of scale.

The second prong of this strategy focused on offsetting price increases through improved response rates for mailed marketing products. Much of our offering focuses on using our proprietary data stack to enhance audience targeting and responsiveness across channels including in-home direct mail. I will discuss further in a moment.

On slide 4, we share how Quad is investing in the rapidly evolving technology of artificial intelligence to create internal cost savings and support revenue generation. We organize our approach to AI application into three categories: Process Automation, which replicates and replaces repetitive human tasks; Cognitive Insights, which uses machine learning algorithms to produce predictive insights; and Cognitive Engagement where generative AI

can continuously analyze large pools of data to dynamically create net new content and insights. Quad leverages AI across these categories to optimize each aspect of the marketing process.

In MX: Intelligence, we are focusing on using AI-powered insights from our data stack to predict behaviors and optimize messaging to reach the right audiences. In MX: Creative, we're applying AI-driven automation to accelerate the production of high-quality, customized content across channels, ensuring relevant connections at scale. In MX: Production, we are streamlining workflows like scheduling and machine maintenance to reduce manual intervention and improve speed to market without compromising quality. And in MX: Media, we are using AI to optimize campaign performance through continuously refining media execution across digital and physical channels, tracking real-time progress and making intelligent adjustments for maximum impact.

Transition to slide 5, marketers increasingly rely on audience intelligence to drive stronger campaign outcomes and quantifiable ROI, and our AI-powered, household-based data stack is helping meet that need. Our data stack includes more than 20,000 addressable, demographic, transactional, attitudinal and behavioral characteristics as well as hundreds of proprietary interests or what we call passions, representing 92% of the US households. We're actively applying our data stack to client work across all channels. One major use case for our data stack is enhancing clients' media buying with precision at scale. For example, Spirit of Gallo, the fourth largest spirits supplier by volume in the US, relies on our data guide to guide its buying strategy across out-of-home, social and connected TV media channels. Gallo is pleased with the progress our partnership has generated so far and we look forward to growing together in the future quarters.

We also use our data stack to enhance direct marketing campaign effectiveness. By filtering target characteristics and passions from our data stack, we optimize mailing list to increase response rates and achieve a greater ROI for our clients' initiatives. Earlier this year, we applied our data stack to identify the best potential customers for our direct mail campaign we helped execute for a nationwide home services company. The new customer acquisition mailing led to more than an 80% increase in revenue and a 65% increase in return on ad spend compared to the client's 2024 mailing campaign.

As we highlighted last quarter, Quad is providing integrated marketing services for Valvoline Instant Oil Change across creative, production and media. Using a combination of demographic and transactional characteristics, we are generating targeted list to market the clients' grand openings and store remodels through in-home direct mail. The initial results from this application of our data stack are quite promising.

In addition to the use cases I've outlined, we're exploring new avenues to monetize our differentiated data capabilities, and I look forward to sharing more about these opportunities on future calls. The biggest hurdle to scaling data applications is the time and specialized knowledge required to interpret the relevant data for a particular use case.

During the quarter, we [ph] solved (00:17:13) for this challenge through the launch of Audience Builder 2.0, an AI-powered tool that enables Quad employees to easily access our data stack to create complex, high-propensity audiences. By year's end, we expect to finish integrating a large language model within the tool to enable even faster audience creation using natural language prompts. These queries can be as simple as "build me audience of all potential customers who are in the market for premium pet food who shop online." The tool will then generate an audience list following the requested parameters in a format that can be deployed directly to online or offline channels.

On slide 6, we provide an update on In-Store Connect by Quad, which leverages the high foot traffic of brick-and-mortar stores to generate direct consumer connections for retailers and brands. We recently announced our

partnership with Vallarta, a leading Latino-owned grocery chain in California known for providing high-quality, authentic ingredients to its customers. By the end of the summer, In-Store Connect will go live in 15 Vallarta stores, featuring messages in both English and Spanish and providing CPGs with expanded access to shoppers. Steve Netherton, Chief Information Officer and Vice President of Continuous Improvement for Vallarta Supermarkets, said, In-Store Connect gives us an effective tool to communicate our unique products and potential savings to shoppers while opening new opportunities for brands to engage with communities we serve in meaningful, measurable ways.

I'm pleased to share that we have successfully doubled our In-Store Connect footprint with The Save Mart Companies. Recently installing the solution in 15 additional stores, this marks the first growth required to expand its store count beyond our initial test base. With In-Store Connect, we're strengthening our roles as strategic advisors, helping physical retailers adapt to a rapidly evolving media environment. Our dynamic, real-time advertising channel delivers measurable results for advertisers and retailers alike. Based on a sampling of data from transaction logs, Quad has seen an average of 5% to 20% product sales lift from participating brands. The range in sales lift depends on campaign objectives. Promotional campaigns on our platform often generate the highest returns, with some achieving sales increases greater than 20% for featured products.

Brand awareness ads like those from Michelob Ultra consistently deliver single-digit sales increases, adding steady value over time. In addition to digital product lift, In-Store Connect has demonstrated its ability to boost across entire product categories. We're also using In-Store Connect to help other types of retailers create their own internal store, in-store retail media ecosystems. The focus here is to elevate the shopper experience with promotional content directly in aisle. As we shared last quarter, one of the nation's largest home improvement retailers currently has more than 550 of our digital screens installed in approximately under 100 of its stores.

Transitioning to slide 7. During the quarter, the company and its leadership received several recognitions and awards reflecting Quad's industry expertise. For the sixth year in a row, we ranked among AdAge's top 25 world's largest agency companies. We also earned a repeat spot on an MM+M's Agency 100 for our expertise in healthcare marketing. Several of our leaders received industry recognition during the quarter two, ranging from commerce marketers pioneer in retail media to e-commerce studio professionals and Adweek's most influential leaders driving growth across advertising, marketing, media and tech.

As an industry thought leader, Quad regularly partners with some of the nation's most reputable researchers to explore marketing trends as shown on slide 8. Quad recently partnered with The Harris Poll, one of the longest running surveys in the US to conduct a cross-generational consumer study on how Americans engage with digital and physical media. The study titled, The Return of Touch Report Reimagining Consumer Engagement in 2025, finds that consumers desire tactile brand experiences, including in-store shopping and immersive print catalogs and direct mail. Some key findings are that 71% of consumers say experience of brand in a physical store deepens my connection and loyalty to it. 71% of consumers also say print catalogs or magazines feel more authentic than digital campaigns.

Findings were even more compelling for younger generations as 86% of Gen Z and Millennials say, touching and feeling products are essential to my purchasing decisions, and 73% say they look forward to receiving catalogs from brands. These trends support Quad's belief that integrating digital and physical touchpoints is essential to impactful marketing. That's why we have built our services to seamlessly connect creative production and media solutions across online and offline channels to enhance customer engagement and improve marketing ROI.

On slide 9, we spotlight a longtime partner that leverages tactile media to improve engagement with consumers. KnitWell Group has a portfolio of iconic American fashion brands including Talbots and Chico's. Catalogs play a

vital role in marketing these brands and Quad has probably served as Talbots' trusted catalog print partner for more than 15 years. Beyond print execution and paper sourcing, Quad employees work as an extension of Talbots' marketing team, working directly onsite in the clients' facilities where they handle creative pre-media that supports the brand's catalogs and social channels. Building on our strong manufacturing and service record with Talbots, Quad has recently expanded our partnership with other affiliates of KnitWell Group, winning catalog and direct mail print execution for three brands under the Chico's portfolio.

Transitioning to slide 10. We are proud to share new work we debuted for Natrol, the nation's leading drug-free sleep aid brand. As Natrol's Agency of Record, our Betty creative agency was engaged to help reposition the brand from a sleep supplement to a wellness performance partner. We collaborated with MVP quarterback, Josh Allen, to promote the client's new Sleep & Restore product line through a campaign featuring 15 and 30-second video spots across digital, linear TV and connected TV including Amazon, [indiscernible] (00:23:59) and Walmart Connect. The spot entitled, Visit Me, has garnered strong results, receiving over 1.8 million YouTube views and 5.8 million Instagram Reel views in under two months. The campaign has also been picked up by major media outlets and marketing publications including People, Sports Illustrated, Bleacher Report, MM+M and MediaPost.

Rebekah Lyle, Natrol's Chief Marketing Officer, said utilizing MVP quarterback, Josh Allen, we've been able to tap into a huge new audience and see the impact utilizing top-tier talent at scale can have. We're thrilled about the This Me spot has gone live along with the Natrol Pro Sleeper Sweepstakes and even more excited about what's still to come. Natrol is just one of three standout creative campaigns our Betty agency has launched in the last two months, including new work for the Minnesota Lottery and a creative campaign for Kemps, a midwest dairy products brand owned by Dairy Farmers of America.

Before I turn over the call to Tony, I would like to recognize our employees and thank them for their continued hard work, particularly, as we prepare for our peak, busy season. Through our persistent and commitment to innovation, we are supplying and 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 11, we show our diverse revenue mix. Net sales were \$572 million in the second quarter of 2025, a decrease of 4% compared to the second quarter of 2024 when excluding the 6% impact of the February 28, 2025 divestiture of our European operations. The decline in net sales during the second quarter was primarily due to lower paper and logistics sales. Net sales were \$1.2 billion in the first half of 2025, a 3% decline compared to the first half of 2024 when excluding the 4% impact of the Europe divestiture. On a year-to-date basis, the decline in 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 the first half of 2024 and 2025, our revenue as a percentage of total sales increased 2% in our targeted print offerings, driven by direct marketing, packaging and in-store while our largescale print offerings decreased 2% in our revenue mix due to expected organic declines in magazines and retail inserts.

Slide 12 provides a snapshot of our second quarter 2025 financial results. Adjusted EBITDA was \$43 million in the second quarter of 2025 as compared to \$52 million in the second quarter of 2024 and adjusted EBITDA margin declined from 8.2% to 7.6%. On a year-to-date basis, adjusted EBITDA was \$89 million in 2025 compared

to \$102 million in 2024 and adjusted EBITDA margin declined from 7.9% to 7.4%. The decrease in adjusted EBITDA in both periods 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 lower selling, general and administrative expenses, benefits from improved manufacturing productivity and savings from cost reduction initiatives.

Adjusted diluted earnings per share was \$0.14 in the second quarter of 2025 as compared to \$0.12 in the second quarter of 2024. Year-to-date, adjusted diluted earnings per share was \$0.34 in 2025 compared to \$0.22 in 2024. The increases are due to higher earnings and the beneficial impact of share repurchases. Free cash flow improved \$16 million from last year to negative \$66 million in the six months ended June 30, 2025 and included \$34 million of free cash flow generation in the second quarter of 2025. The increase in free cash flow is primarily due to an increase in cash earnings, including lower restructuring payments and lower interest payments as well as a \$9 million decrease in capital expenditures. In addition, during the first quarter of this year, we made proactive inventory purchases of paper and other materials in advance of potential tariffs. This inventory was utilized during the second quarter, which also contributed to improved working capital compared to the first quarter.

We show the seasonality of our free cash flow and debt leverage on slide 13. Due to the seasonality of our business from the timing of holiday-related advertising and promotions, 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. 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 \$84 million from June 30, 2024 to June 30, 2025.

Our free cash flow, in addition to proceeds from asset sales, fuels our capital allocation strategy as shown on slide 14. During the second quarter, we made progress on the sale of those facilities, including the sale of our 65,000 square foot Sacramento, California building for approximately \$5 million. We continue to expect to generate future cash proceeds from additional owned facilities that are currently for sale.

Our strong cash generation recently enabled us to deepen our product offering by acquiring the co-mailing assets of Enru, a co-mail and logistics solutions provider. It is crucial to provide the industry and our clients with additional co-mail postal optimization solutions since postage is the largest cost for our clients to produce and deliver print marketing campaigns. We are pleased that the Enru integration is going well.

In addition to the Enru acquisition, we have used our strong cash generation to maintain low debt balances and returned \$15 million of capital to shareholders year-to-date. This year, we increased the quarterly dividend by 50% to \$0.075 per share and our next dividend is payable on September 5. In addition, we repurchased 1.4 million shares of Class A common stock thus far in 2025. This brings total repurchases to 7.3 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 15 includes a summary of our debt capital structure. At the end of the second quarter, our debt had a blended interest rate of 7.2%. And our total available liquidity, including cash on hand under our most restrictive debt covenant, was \$202 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 interest rates increase and we benefit if interest rates were to fall, down to approximately 2% so far. Including these interest rate collars, we will pay lower interest expense of approximately 86% of our June 30 debt if interest rates decline.

We reaffirm our 2025 guidance as shown on slide 16. We continue to expect 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.

Full year 2025 adjusted EBITDA is expected to be between \$180 million and \$220 million, with \$200 million at the midpoint of that range. Compared to the second quarter of 2025, which is our lowest quarter for print volumes, we expect sequentially higher adjusted EBITDA in the third and fourth quarters of 2025 during our seasonal production peak.

We are closely monitoring the potential impacts of tariffs and inflationary pressures on our clients in addition to the recent postal rate increases, which could affect print and marketing spend. 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. We expect 2025 free cash flow to be in the range of \$40 million to \$60 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 17 includes a summary of our 2028 financial outlook and our long-term financial goals as we continue to build our momentum as a marketing experience company. Compared to net sales declining 10% in 2024, we expect the rate of net sales decline to improve to negative 4% in 2025, excluding the Europe divestiture, and then reach an inflection point of net sales growth in 2028. We are strategically investing for the long term as we expect growth in our integrated solutions and targeted print offerings to outpace organic decline in our largescale print product lines of retail inserts and magazines.

In addition, by 2028, we expect to improve adjusted EBITDA margin by at least 100 basis points compared to 2024 and then reach low double digit adjusted EBITDA margins in the long-term as our net sales mix of higher margin services and products increases while continuing to improve manufacturing productivity and reduce costs. Regarding free cash flow, we expect to improve our free cash flow conversion as a percentage of adjusted EBITDA from approximately 25% based on 2025 guidance to 35% by 2028 and to 40% in the long term, primarily, due to lower interest payments on decreasing debt balances and lower restructuring payments.

Finally, we continue to expect to maintain our current long-term, targeted debt leverage range of 1.5 times to 2.0 times as part of our balanced capital allocation strategy. We believe in Quad's compelling long-term investment, and we remain focused on achieving our financial goals, including returning capital to shareholders.

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

QUESTION AND ANSWER SECTION

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

Joel Quadracci

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

Good morning, Kevin.

A

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Yeah. So I wanted to start off by asking about the landscape in terms of the postal rates in the post office. It sounded like, again, a little more optimism on that front that you voiced on this call with maybe a little more focus on the pricing versus volume trade-off. And I know you keep in touch closely with folks at the postal service, so kind of maybe give us a little bit more on how you see that progressing and if we, potentially, can get a little more relief on that front while also recognizing you do a lot for your clients to help offset rising rates.

Joel Quadracci

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

A

Yeah. A lot going on here. Last week was the formal transition of the old postmaster general to the new one. I was actually at the reception for him at the National Postal Museum, which is part of the Smithsonian Institute (sic) [Institution] (00:36:40). I knew David when he was CEO of Waste Management, and I know him as a strong, practical, people-oriented leader. And so I'm optimistic about his talents being able to be applied to what is a rather complicated story.

But the other things happening is they did just implement that expected 11% postal rate increase, which puts more weight on top of 50% to 70% that they've increased over the past four years alone. But that was expected. And I think that the hope here is that they're starting to recognize that those increases have hurt them, as well as volume in the industry. And it's an age-old argument that when you increase your biggest cost to your clients, volume will go down. They seem to finally be believing that. And so one of the things that they're doing, which is encouraging, is this test that starts in October, which goes for nine months where if you reach certain criteria as a cataloger, that you can get up to a 10% discount. That's really important because it's the prospecting side using catalogs where the volume dries up the quickest when rates increase. So hopefully, that relief will help show maybe less decline and, in some cases, some growth. And so we're looking forward to that.

The other big thing that happened is the Postal Rate (sic) [Regulatory] (00:38:05) Commission, which really oversees the rate structure of the post office, started a review of everything a couple years ahead of when they usually do it. And some initial things just came out last week, we just submitted new comments this week that they're accepting is that they recognize formally that the pricing increases have hurt volume. There's even a recommendation to go to once-a-year price increases because it's hard for businesses to manage. But they also went as far as to suggest that the rate increases should be capped again under CPI increases. And so that's something we're watching and we will be participating in. And so I'm encouraged by it. It is a complicated, difficult thing to manage. So it's not easy for any postmaster general to come in and fix something like this. But I like what we're hearing. I like the direction. And we're going to stay very closely in touch with the post office as they think about their next moves because they are engaging with the industry again, which is nice to see.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay. Great. And just wanted to shift to your ongoing investments in growth and innovation and a lot of discussion about AI in your remarks and, specifically, the launch of Audience Builder 2.0, you noted in your press release that that's a significant milestone in being able to activate this wealth of data that you have. So maybe – you touched on it, but what does it do for you that you weren't able to do before and how that benefits the client and, ultimately, how that contributes to maybe in your growth and in your business?

Joel Quadracci

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

A

Yeah. Yeah. I'd say the data stack that we've done in partnering with Google Cloud to really – to watch it and be able to make sure that we'll be able to use it in the ways that we expect to in the future. What it really kind of does, Audience Builder, which was built on the Snowflake platform, really helps kind of democratize the access to the data. So it's one thing to have a large data stack, it's another to kind of translate and dive into it and say, here's the audience I need to build from that data stack that's good for this specific customer, the attributes they're looking for. Traditionally, you're working with some data scientists to try and navigate that. They're doing all sorts of work and modeling to pull out the right data in the data stack. What Audience Builder 2.0 does is actually allows us to automate that. And so even someone like me, although hopefully they'll keep me from doing that, could actually start entering some of the attributes into the model and leave some AI features to help navigate through the data stack to automatically pull those out.

And as I referenced before, the next phase of this is where we're going to apply generative AI or large language models to actually help do prompts into the data stack. So you go from having to input into multiple fields to actually just prompting the AI to go find I want the person who likes to run outside and uses these types of shoes for what they like to do. Please create an audience of 300,000 people who look like that, and it will then automatically navigate it. And so you can sort of see the progression of the use of AI on the data stack. But again, AI is a tool. And so the way I look at it, it's the way to make things much more accessible in a faster pace so that customers will be able to iterate the audience data faster than ever.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Yeah. That sounds really interesting. I mean, do you think this is a tool or something you can go out to your client base and kind of show them that this is a differentiator and, ultimately, these sort of tools that you continue to build and launch kind of continue to drive new business wins for you?

Joel Quadracci

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

A

Yeah. Yeah. I think there's a lot of differentiators that happen. Certainly, this will be the data stack is, but we're where we spend our time and I'm trying to show you in the script and roll out in the examples is it's not the data stack unto itself, it's not an AI model unto itself. It's what does it apply to help the customers sell more business. And that's what we're totally focused on. And so when we talk about the data stack and that we've had Audience 2.0 to help navigate it, what we're really saying to the customer is, we've got this great data stack, now we're going to be able to grab data faster than ever, more accurately than ever and we're, at the same time, showing them where to apply that. And so great, we got the audience data quickly. It may help us more quickly say, this much should be in social, this much of your budget should be in direct mail.

These are the different places you should spend the money. It's that complexity that the customers are asking us to help them with. And that's why I think it's important to understand in a complex marketing world that's evolving here, it's not like one thing that a customer is looking for. They're looking for help in how to use that one thing and how does it tie to the three or four other things that are happening.

I mean, in the half or even in the quarter, I'm really excited by the 7% increases in sales we're seeing in direct mail and packaging and a 13% increase in sales for in-store because we're not selling those individual products by mimicking what they're already doing. We're getting to sales by tying in complexity of new offerings to help them get more responsiveness out of that. And like an example, in direct mail, I'm not just saying we're going to replicate what you're doing. We're actually saying let's start with new audience and let's figure out how to come up with a challenger direct mail piece to the one you're currently doing. By the way, we'll test that virtually in our virtual testing platform before we roll it out. That's not how it's typically done. And so we're winning big programs based on tying those complexities together.

The same in packaging. We're not just trying to do the same form factor someone's doing. In the case of a battery supplier, they're trying to get away from plastic. So we help create a form factor that just uses paper that fits the machines they're going to do, so we won that. But also in packaging, we have cases where we're using the same sort of virtual analytics to inform what the form factor and what the creative should look like on the packaging when it's in the aisle. But furthermore, in-store group then is saying, here's the signage that should accompany it in the aisle with the packaging.

And then finally – so finally, when you look at those, we're tying complexities together, just not mimicking what people are doing, and that's the whole power of this MX marketing solution is we're going to have all the buzzwords working for us, the AI tools or you name it, the data stacks, but it's how you're applying it and how the customers can feel comfortable that we're going to make it easy.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Great. Very helpful color and I appreciate you touching on some of the sounds like really healthy growth rates in the targeted print categories. I believe you said 7% and 13% for a couple of years ago.

Joel Quadracci

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

A

Yeah. Year-to-date. A little higher than the quarter but...

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay. Great. Well, yeah, that's very helpful color. Because that kind of dovetails in just like bigger picture. My question is, any evidence you can point to that gives you greater confidence about this journey you're on to achieving net sales growth? I know you continue to say by 2028 but it sounds like there's some kind of real, tangible evidence you're seeing, so far, this year that the strategy in that journey continues to progress and take hold.

Joel Quadracci

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

A

Yeah. I mean, I think you look at the pie charts that we show you of targeted print versus largescale print. In largescale print, that is viable marketing material. Retail inserts still work. People still want magazine but they

have the biggest decline rate. And so part of the migration to increasing the share of pie in targeted print and on the integrated solutions side is that you have that steady decline but it's still good revenue, it's good cash flow revenue. And so that kind of dictates it a little bit.

I mean, in fact, I think we're seeing little bit less decline in retail inserts than we typically expect. Some of that's maybe some market share and maybe a little bit more resilience in some categories. But it will continue to decline. So that's the healthy balance that people have to think about, about why 2028 for the flip, we still have this big, girthy print volume stuff that creates good cash flow and we'll manage it as we manage it while we grow the other stuff. But it's how we're winning the other stuff that encourages me because we're not winning it by just doing the me too pitch. We're doing it by using intelligence to create those channels to be more customer-centric from a growth rate standpoint, higher ROI.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

All right. Fantastic. That's, again, really great commentary. I appreciate it. I'll turn it back over.

Joel Quadracci

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

A

Okay. Thanks. We'll talk to you later.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Operator, next question.

Operator: Thank you. Next question comes from the line of Barton Crockett with Rosenblatt. Please go ahead.

Joel Quadracci

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

A

Good morning, Barton.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Good morning, Barton.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Good morning. Thanks for taking the question. I guess a couple of things I was curious about on the numbers. One is your sales trend kind of excluding the Europe divestiture down 4% in the quarter, a little bit of a deceleration from the down 2% in the first quarter, even though I think you had the benefit of lapping the loss of a grocery client. And I was just wondering if you could just remind us how material is that grocery impact and also unwrap a little bit – unpack a little bit about what prompted the deceleration here in trends in the second quarter versus the first.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah. So I'll start with your question on the grocery client. That was – we had disclosed earlier 3% of revenue, right? So, I think \$90 million to \$100 million on the top line for the year. And then when you look at quarter-over-quarter, you're right on the trend, Q1 versus Q2. Q2 is typically our lowest volume quarter. We saw higher organic decline in some of those larger print product lines in that quarter. We also saw some volume get into the first quarter that might, typically, have fallen into the second quarter, which explains the kind of the quarter-over-quarter trend. But we're still – for the year, we're down 3% on the top line. So closer to the better end of our range of 2% to 6%. And now, we expect increasing volumes going into our third and then the fourth quarter. So it's just a matter of more volumes in Q2.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. So to that end, I mean I know you guys have the full year guidance. Anything you can say about how the third quarter is trending based on what you can see so far?

Joel Quadracci

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

A

Yeah. I guess I didn't see any of the volumes in the quarter to be alarming. But I will say, we were worried about the effect of tariffs and – the last quarter and we talked about that, but we also said that we hadn't seen large-scale pullback because of tariffs. I'd say the tone that I'm hearing in the marketplace now is cautious optimism that, boy, the world is still functioning well after all the stuff that's happened that, again, I think people are sort of charging ahead. We'll continue to look at what kind of impact maybe as the tariffs roll out it will have on the consumer. But as I talked to catalogers, there seems to be an optimism there, cautious optimism. I think in retail, a little bit of the same but you have to – it depends on who you talk to and what category. So, I think that I'm feeling comfortable with what we're seeing and what we're hearing in terms of our guidance and relative to our guidance.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Yeah. But it sounds like you said that trends have been – volumes are up and that was a comment I want to make sure I understand. Are you saying...

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah. I think as the rest of the – Barton, as the rest of the year plays out, you should expect, compared to the second quarter, higher revenue and EBITDA in the third and then the fourth to be the highest revenue and EBITDA quarter of the year.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Seasonally. But on a year-over-year basis, is the trend – are you seeing that trend improves or just it goes up seasonally quarter-to-quarter?

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

It'll say to within the guidance range that we gave of the 2% to 6% on the quarters.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

All right. All right. And then you guys – in terms of the asset sales, you guys had a couple of things going on here that I just want to make sure I understand what's in the results you just reported. So you guys had closed Sacramento and so that cash is in the door here in the quarter you just reported, is that correct?

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

That is correct, \$5 million.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

And then you guys had bought Enru, I think, for \$34 million. And that outflow was also in the quarter you just reported?

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

We paid \$16 million upfront and that's in the quarter that we just reported. There's a \$2 million cash payment later this year and then there is an earn-out that depends on how the business performs that makes up the rest of the potential purchase price over five years.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Now, in terms of the other kind of assets, I mean, is there – can you just remind us what you have that is on the block right now that could be sold that's remaining at this point?

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Yeah. We've got two buildings located in Effingham, Illinois. These are all from earlier plant closures. We have one building in Waukegan, Iowa. And we have one building in Greenville, Michigan, which was our most recent plant closure done in the early part of the second quarter. The Greenville and our Waukegan plants are relatively small, I think around 100,000 square feet. Effingham's got a little more – between the two buildings, a little more square footage to it.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Now, in terms of your guide for net debt at \$300 million, I think from what was \$350 million, so about a \$50 million net reduction, which kind of squares with the middle point of your free cash flow guidance for the year. Are you guys – how are you, guys, kind of treating cash from potential asset sales when you're guiding for net debt? Is that kind of not included or anything you could say about that?

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

I would say we do make estimates on when we think facilities are going to sale and sell and what we think they're going to sell for. And we do include that in the year-end guidance. So it's possible, depending on the timing of

asset sales that the only impact it would have would be on the net debt and the debt leverage. And again, we'll eventually sell those buildings. So depending on timing, yeah, it's possible something could slip into 2026.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. That's cool. And then I guess the final point is on this postal service report which sounds interesting, the recommendation for CPI-capped rate increases which sound like revolutionary compared to the last four years of much bigger than inflation at a time when inflation has been elevated. What would it take for that to be implemented and what would be the timing for that to be implemented and what is the probability of that in your opinion?

Joel Quadracci

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

A

Yeah. That's a good question. That will have to play out because they're the governing body that overlooks it. And there's lots of process that goes on here. There's lots of input being gathered this week, quite frankly. And so what the process will be, how long that will take is a little bit yet to be seen. It's not revolutionary. It's actually where we came from until the pandemic happened. So after the pandemic happened where they were allowed to use these – the authority to go above the CPI increase. But for the many years, decade-plus before that, it was capped at CPI. And if you look at that range, you know, what happened was, yeah, we had decline in print, but it was pretty consistent and manageable. And then as soon as the pandemic happened, you saw a big increase in the decline of print, but then it bounced way back, back to a little bit better than the decrease that it was seeing. But that's when they really started cranking the prices. So in the next subsequent – from 2022 on is when you suddenly saw the print decline accelerate because you just saw the pricing increased so dramatically. And I guess the challenge is, they got to run it like a declining business.

I think the previous postmaster general declared he wanted to run it like a growing business. Well, the only way you can grow revenue if volume is declining is you create pricing. Well, that's a very short-term thing to do. And so I think there's a lot of people in the industry really pushing to come up with something that works. And will it be a cap at CPI? I don't know. But I think lessons are being learned here and I think there's a real impetus and desire to want to come up with something that allows the industry to be healthy, which means the post office can be healthy, but it's going to take some complexity and some heavy lifting to get that happening. I wish I could give you a more succinct answer, but we will share it as we see it happening.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. That's helpful. And that's it from me for questions. Thank you.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

All right. Thanks, Barton. Operator?

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

Joel Quadracci

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

Thank you, everyone, for joining today's call. And I want to close by reiterating that Quad remains steadfast in our strategic vision, leveraging our integrated marketing platform to unlock diversified growth, improve print and marketing efficiencies, and create meaningful value for all stakeholders. With that, thank you again and have a great day.

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

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