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Quad/Graphics, Inc. (QUAD)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Quad's First Quarter 2026 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 and 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 over to Julie Fraundorf, Quad's Executive Director of Corporate Development and Investor Relations. Julie, please go ahead.

Julie Fraundorf

Executive Director, Corporate Development & Investor Relations, Quad/Graphics, Inc.

Thank you, operator, and good morning, everyone. With me today, our Joel Quadracci, Quad's Chairman and Chief Executive Officer; and Tony Staniak, Quad's Chief Financial Officer and Treasurer. Joel will lead today's call with a business update, and Tony will follow with the 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 net debt leverage ratio. We've 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 & Chief Executive Officer, Quad/Graphics, Inc.

Thank you, Julie, and good morning, everyone. I'll begin with key highlights shown on Slide 3. Our Q1 results were in line with our expectations, and we are on track to achieve our full year 2026 guidance. During the quarter, we maintained steady profitability and expanded margins compared to Q1 2025. Our strong balance sheet enabled us to return \$7 million to shareholders, including \$6 million in regular cash dividends and \$1 million in share repurchases.

We continue to make strategic investments in our expanded marketing solutions and are seeing strong momentum in our audience strategy services, which are powered by Quad's proprietary household-based data stack. Quad's MX offering shown on Slide 4, includes a suite of integrated solutions across creative, production, and media, supported by intelligence and technology and spanning both digital and physical channels.

As we invest in our growing solutions portfolio, we are maintaining cost discipline while navigating dynamic macroeconomic challenges, including continued postage rate increases and cost pressures in our supply chain stemming from the ongoing conflict in the Middle East.

In late Q1, oil and gas prices increased sharply, driving up distribution costs and raising input costs tied to petrochemicals used in certain manufacturing processes, most notably ink. In response, Quad implemented a temporary surcharge on ink. We are continuing to proactively manage the situation should volatility persist, including diversifying suppliers, optimizing inventory planning, and taking targeted pricing actions where appropriate.

Postage remains a significant macroeconomic challenge for many of our clients, representing the single largest marketing expense for mailers and a key factor shaping marketing spend decisions. The USPS continues to rely on price increases as one of its primary levers to address its financial challenges.

Earlier this month, the Postal Service announced the details of its next rate increase, expected to take effect on July 12. We estimate this will result in an average postage increase of up to 10% for many of our mailing clients. In March, Postmaster General David Steiner testified before Congress, stating that absent federal intervention, the USPS is expected to run out of cash in 2027.

The Postmaster General attributes this in large part to the USPS' Universal Service Obligation, which requires it to deliver mail six days a week to every address, a number that grows by more than 1 million delivery points each year. The Postmaster General emphasized that to continue executing its Universal Service Obligation, the USPS must either be federally compensated for the public service or provided the pricing and operational flexibility necessary to sustain it. It should be noted that since the Postmaster General's testimony before Congress, the USPS has been granted additional financial flexibility that will now provide it with liquidity beyond 2027.

As this situation evolves, Quad's Postal Affairs team remains actively engaged with policymakers in Washington, as well as the Postal Service, advocating on behalf of our clients and the broader mailing ecosystem. To help mitigate ongoing rate increases, we continue to deploy the same two-pronged approaches we have had for decades, focused on maximizing postal cost savings while improving response rates. Small reductions in the cost

of postage can translate into substantial savings when applied across millions of pieces, and this is where Quad continues to deliver measurable value for our clients.

As shown on Slide 5, our postal optimization solutions work together to reduce clients' mailing costs. This example demonstrates how a layered optimization approach led to significant savings for our client across one week of mailings. To start, the client reduced its overall postage cost by 20% by participating in Quad's main optimization program of co-mail. The client realized an additional 3% savings per piece in high density delivery areas by utilizing advanced co-mail sortation capabilities. We helped the client capture further savings through our Household Fusion program, which combines multiple publications or catalogs into a single mail piece where eligible.

In parallel, our postal experts helped the client qualify for USPS promotions, lowering its cost even further. Taken together, these solutions cut the client's postage costs by 27%. This is a notable savings, considering postage accounts for up to 70% of the cost to manufacture and deliver print mail pieces.

It is also important to note that savings generally increase as the size of our weekly co-mail pool grows. Today, there is still a fair amount of clients who do not optimize their mailings in our programs. As more clients adopt our postal optimization programs, we expect to generate higher savings for all participants. We also continue to invest in innovative solutions that improve the efficiency and effectiveness of direct mail, including At-Home-Direct (sic) [At-Home-Connect], our self-service direct mail automation platform. Launched last year, the platform enables personalized mail with timely scalable delivery, greater speed, and operational simplicity. It also enables trigger-based mail informed by online consumer interactions or special life events to drive consumers further along the purchasing journeys.

On Slide 6, we show an example of how Fidium, a rapidly growing fiber internet provider is using the platform to streamline workflows and get into market faster, consolidating multiple segmented direct mailings into a single weekly execution. With At-Home Connect, Fidium reduced its mail cycle from two weeks to just five days, eliminating approximately 45 labor hours per month and reduced direct mail production costs by 33%.

As one Fidium executive said, switching to At-Home Connect has been a game-changer for our direct mail program. It saves us time and reduces print and postage costs without sacrificing volume. Overall, it's been a seamless and highly effective solution.

Beyond driving operational efficiencies, we are always working to identify and invest in solutions that improve marketing effectiveness and generate stronger response rates for our clients.

Slide 7 highlights our work with Monogram, a Boston-based financial services firm, as it scaled its new private student loan product, Abe. Monogram needed a partner to help increase booked loans while establishing credibility in a competitive, mature market. Quad partnered with the client from strategy through execution, leveraging our team's industry insights and experience to develop the brand's first-ever direct mail effort.

The program launched during the peak lending season, running six campaigns from late April through September 2025. The strategy used Quad's proprietary household-based data stack to identify high potential borrowers and co-signers. Campaigns incorporated pre-market testing, audience modeling, creative optimization, and response analysis, with insights continuously applied to improve performance over time. The program delivered strong results. Abe achieved its 2025 growth objectives, with booked loans increasing six-fold year-over-year, while maintaining its target cost per application.

This example reflects the value of our integrated approach, which combines data, strategy, creative, and execution. The program also earned industry recognition, with Quad receiving a Financial Services Strategy Award in the Personal Finance category from the Gramercy Institute, the world's largest network for senior marketers from leading financial institutions.

As an industry thought leader, Quad partners with some of the nation's most respected researchers to better understand emerging market trends. As shown on Slide 8, we've continued our partnership with The Harris Poll, one of the longest running survey firms in the U.S., releasing findings from a new national study that examined how AI is shaping the consumer shopping experience. The study shows shoppers are primarily turning to AI for practical reasons. When we asked why AI appeals to them, two in three shoppers said they like how the technology can spot pricing inconsistencies, and three in five said it helps them stay on budget and narrow choices more quickly.

Findings also underscore that AI complements physical shopping experiences versus replacing them, with a majority of Gen Z and millennials saying they use AI in-store for real-time help. As AI continues to influence how consumers discover, evaluate, engage with brands, Quad is helping clients adapt.

For example, AI-based search has significantly disrupted traditional paid search and search engine optimization marketing strategies. In response, Rise has developed a proprietary AI referral agent reporting system that enables clients to track, measure, and optimize performance across large language models.

By monitoring metrics like AI citation rate, depth, and engagement quality, the system helps clients understand if AI LLMs are surfacing their brand content, whether those appearances are driving site traffic, and which platforms are delivering the strongest results, allowing them to continuously refine their strategy and improve market effectiveness.

Before I turn the call over to Tony, I would like to recognize our employees and thank them. Their hard work and commitment to urgently innovate is helping solve our clients' most complex marketing problems, drive Quad's diversified business, and advance our long-term strategic goals.

With that, I'll turn the call over to Tony.

Anthony C. Staniak

Chief Financial Officer & Treasurer, Quad/Graphics, Inc.

Thanks, Joel, and good morning, everyone. On Slide 9, we show our diverse revenue mix. During the Q1 of 2026, net sales were \$581 million, a decrease of 4.3% compared to the first quarter of 2025 when excluding the February 28, 2025 divestiture of our European operations. The decline in net sales was primarily due to lower print volumes and lower agency solution sales. Our agency solution sales were impacted by pullback in spend from certain existing clients and our ongoing evolution from project-based work toward agency-of-record engagements.

Comparing our net sales breakdown between first quarter 2025 and 2026, our revenue mix as a percentage of total net sales increased in our targeted print offerings of direct mail, packaging, and in-store, and also in our logistics business due to increased volume and additional list services provided through our enhanced co-mail operations. These increases were offset by declines in the print product lines of magazines and catalogs and also agency solutions.

Slide 10 provides a snapshot of our first quarter 2026 financial results. Adjusted EBITDA was \$45 million in the first quarter of 2026, as compared to \$46 million in the first quarter of 2025, and adjusted EBITDA margin increased from 7.2% to 7.7%.

The increase in adjusted EBITDA margin was primarily due to cost realignment actions taken due to print volume declines and benefits from improved manufacturing productivity. Adjusted diluted earnings per share was \$0.25 in the first quarter of 2026 as compared to \$0.20 in the first quarter of 2025, an increase of 25%. The increase was primarily due to higher net earnings, including lower interest expense due to reduced debt and lower depreciation and amortization, as well as the beneficial impact of a lower share count.

Beginning in 2022, we have repurchased 7.6 million QUAD shares at an average price of \$4.16 per share, representing approximately 13.6% of our total outstanding common stock as of that time. This includes 167,000 shares repurchased year-to-date for approximately \$1 million.

Quad's board of directors authorized a share repurchase program of up to \$100 million of our outstanding Class A common stock in 2018. As of March 31, 2026, there were \$68.4 million of authorized repurchases remaining under the program. Free cash flow was negative \$107 million in the first quarter of 2026, as compared to negative \$100 million in the first quarter of 2025. The \$7 million decline in free cash flow was primarily due to a \$5 million increase in net cash used in operating activities, mainly from higher inventories, and a \$2 million increase in capital expenditures.

We show the seasonality of our free cash flow and debt leverage on Slide 11. 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 with higher collections after our production peak. In 2026, we anticipate a similar pattern for our free cash flow and debt leverage. When removing the impact of seasonality, our net debt has reduced by \$36 million from March 31, 2025 to March 31, 2026.

As previously reported, we completed the divestiture of our European operations to Capmont in February 2025. The total sales price included a three-year note receivable. As of March 31, 2026, we did not receive payment of principal and interest for the first annual installment of the note receivable, totaling \$6 million, which was due to be paid to us on February 28, 2026. As a result, our net debt balance as of March 31, 2026 was \$6 million higher than we expected. We are working with Capmont on this past due payment.

Slide 12 presents our balanced capital allocation strategy, which is fueled by our free cash flow in addition to our ability to generate proceeds from asset sales. We expect to generate future cash proceeds from buildings we currently have for sale in Waukee, Iowa, and Thomaston, Georgia.

With this strong cash generation, we intend to continue to increase our growth investments as a marketing experience company, maintain low debt balances, and return capital to shareholders through our quarterly dividend and share repurchases. In the first quarter of this year, we increased our quarterly dividend by 33% to \$0.10 per share, or \$0.40 per share on an annual basis. We are pleased to return capital to shareholders through the quarterly dividend and opportunistic share repurchases.

Slide 13 includes a summary of our debt capital structure. At the end of the first quarter, our debt had a blended interest rate of 6.6%, and our total available liquidity, including cash on hand under our most restrictive debt covenant, was \$177 million. Our next significant debt maturity of \$205 million is not due until October of 2029. Given uncertainty regarding interest rates, we hold four interest rate swaps with notional value of \$130 million and one interest rate collar agreement with notional value of \$75 million. Including all interest rate derivatives, we have

49% of our interest rate exposure capped if interest rates rise, and with the interest rate collar, we would pay lower interest expense on approximately 68% of our debt if interest rates decline.

We reaffirm our 2026 guidance as shown on Slide 14 and are pleased that our guidance represents another step on our way to our 2028 outlook for revenue growth. We continue to expect 2026 net sales to decline 1% to 5% compared to 2025, excluding \$23 million of 2025 net sales from the divestiture of our European operations.

The 3% sales decline at the midpoint of the guidance range reflects the continued ongoing improvement trend from a 5% net sales decrease from 2024 to 2025 and a 10% decrease from 2023 to 2024, excluding the European divestiture. Consistent with the seasonal pattern from last year, net sales in the second quarter are expected to be the lowest of the year, followed by sequentially increasing net sales in the third and fourth quarters during our seasonal production peak.

Full year 2026 adjusted EBITDA is expected to be between \$175 million and \$215 million, with \$195 million at the midpoint of that range being essentially equal with the 2025 adjusted EBITDA of \$196 million. We anticipate lower adjusted EBITDA in the Q2 of 2026 compared to the Q1, and then we expect sequentially higher adjusted EBITDA in the third and fourth quarters, consistent with the projected net sales seasonality. Our adjusted EBITDA margin is expected to increase by 30 basis points from 8.1% in 2025 to 8.4% in 2026 due to continued disciplined cost management and margin-enhancing changes in our revenue mix.

We expect 2026 free cash flow to be in the range of \$40 million to \$60 million, with \$50 million at the midpoint of that range also essentially equal, with the 2025 free cash flow of \$51 million. We expect increased net cash from operating activities due to higher cash earnings and the timing of working capital, despite an additional week of payroll payments for 53 Thursday paydays falling in the 2026 calendar year.

We will have a year-over-year cash flow benefit as we return to 52 weekly payrolls in 2027, and the next time we will pay 53 payrolls in a calendar year will not occur until 2032. The projected higher net cash from operating activities is expected to be offset by higher capital expenditures, which are expected to be in the range of \$55 million to \$65 million. Over many years, we have invested in robotics and automation on the plant floor and across our postal optimization solutions to have what we believe is the most technology-advanced platform in the industry.

We intend to continue investing in growth and automation both on our print platform, such as digital presses in direct mail, as well as in our service lines, including In-Store Connect by Quad. Finally, our net debt leverage ratio is expected to decrease to approximately 1.5 times by the end of 2026, 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 due to the seasonality of our business, investments, or acquisitions. We are closely monitoring the current business climate, which continues to present uncertainty driven by factors including persistent inflationary pressures, evolving global trade dynamics, geopolitical tensions, and cautious business spending. These factors, in addition to postal rate increases, could affect print and marketing spend. We will remain agile and adapt to the shifting environment.

Slide 15 includes a summary of our 2028 financial outlook and long-term financial goals as we continue to build on our momentum as a marketing experience company. We continue to expect the rate of net sales decline to improve as it has since 2024 and then reach an inflection point of net sales growth in 2028. In addition, by 2028, we expect to improve adjusted EBITDA margin to 9.4% and are planning to achieve progress towards that goal in 2026 by improving the adjusted EBITDA margin by 30 basis points.

Regarding free cash flow, we expect to improve our free cash flow conversion as a percentage of adjusted EBITDA from approximately 26% based on our 2026 guidance to 35% by 2028, primarily due to lower interest payments on decreasing debt balances and lower restructuring payments. Finally, we expect to maintain our current long-term targeted net debt leverage ratio in the range of 1.5 times to 2.0 times as part of our balanced capital allocation strategy. We believe that Quad is a compelling long-term investment, and we remain focused on achieving our financial goals and providing strong shareholder returns.

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 Barton Crockett with Rosenblatt Securities. Please go ahead.

Joel Quadracci

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

Good morning, Barton.

A

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Good morning. Thanks for taking the questions. Let me see. One of the things, I guess, just to look a little bit kind of big picture for the moment, could you talk a little bit about the degree to which you're seeing all of the macro pressures, including the war pressures and the inflation pressures that prompted you to put in the surcharge, and the return of kind of postage rate hikes? To what degree is that dampening demand from your marketing clients? Or to what degree are people kind of looking past that and continuing at pace?

Q

Joel Quadracci

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

Yeah, I'd say so on the sort of the disruption of supply chain, there's a lot of petroleum-based products that go into some of the things that we do, but primarily impacting ink, whether it's pigments or some of the underlying other components. And so that's why we put a surcharge on. It's -- it's a meaningful number in our pricing, but nothing close to, like, what postage does to our customers. And so we have a surcharge on that, that we will monitor the situation and ebb and flow as it goes forward. I will say that one of the other challenges in this is those components we compete with other industries on as well. So it's like they have choices on where to put those components.

A

And so ink is just one of the areas that those components go in from a global perspective. On postage, as you know, has been sort of a cumulative effect of multiple years of double inflationary increases. And I would say that with this postal increase, and it depends who you are. It's anywhere from 3% to 10% increase for clients in July. I'd say that they generally expected in their budgeting process an increase somewhere in that range. And so I'd tell you that I don't expect like a big pullback through the end of the year. The question will be is, how does that cumulative impact adjust their planning for 2027? And that's what we focus on now. So I think in general, we don't see people kind of adjusting plans significantly at this point because of postage.

And like I said, we added this sort of waterfall slide for you all to kind of understand the impact of the different layers of co-mail and optimization that we've built. One example I could tell you is we just had our postal conference a couple weeks ago, where all our clients come together. One very large customer really kind of didn't do a lot of optimization out of their own volume because they have significant volume. They were going to get hit by about a 10% increase, which was a bit of a surprise to them.

But they ended up within days saying that they're going to join our optimization program to a bigger degree than they were, which is allowing them to suddenly come back down to more of the expected return that they're going to have or rate increase that they're going to have. So all-in-all, I'd say that it's -- as we said, we sort of are as expected for the year. Don't see volumes at this point changing significantly from what we're expecting, but it's also a crazy world.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Well, thanks for that. Now, one of the things also is, in your long-term outlook, aspiring to growth in 2028, when you guys at your Investor Day had talked about the road there, you talked about some growth areas bracketed largely within services, becoming big enough to tip the kind of top line into positive and outweighing kind of the pressure in the products that are more secularly challenged. To what degree do the results that you're seeing in the first quarter and year-to-date, are they consistent with that kind of long-term aspiration you have to return to growth?

Anthony C. Staniak

Chief Financial Officer & Treasurer, Quad/Graphics, Inc.

A

Yeah. Yeah, Barton. This is Tony. So, yeah, I would say, in our services offerings, we still think that those are growth areas for us. We saw a decline in agency in the first quarter compared to last year. We view that more due to our change from project-based to agency-of-record engagements, so we expect growth in 2027 and beyond in agency.

I also would remind that targeted print, direct mail, packaging in-store, those are also expected for growth in our model. And we've seen that as a percentage of our revenue mix in Q1 and even dating back to last year, we've seen those areas continue to grow. So we believe we remain on track for the 2028 inflection point.

Joel Quadracci

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

A

Yeah, yeah. And just to add to that, again, I always talk about the print tangible products as being really big invoices, really big engagements. Whereas as you're up in the services side, smaller invoice is more profitable, and they sort of impact each other by flowing revenue back and forth. But in-store packaging, direct mail are all places we're going to grow that have those girthy things. The catalogs and publications is where we see a lot of the -- I'm sorry, in retail, are where we see the bigger declines that we have to offset. Catalogs probably would've been a lot less so over the years if they're probably the most sensitive to these postal increases.

So if we can kind of -- if the Postmaster General can kind of get control of this thing, I feel -- I'll feel better about it. But again, we still have good, girthy product lines here that we expect to grow and in-store was significantly up in the first quarter as an example.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. And one of the things that you had mentioned was the delayed payment from Capmont. Can you give us more detail what's going on? Was there some inability on their part to pay, or was there some performance benchmark that was not hit by the business you sold? I mean, can you give us some sense of what's going on there?

Anthony C. Staniak

Chief Financial Officer & Treasurer, Quad/Graphics, Inc.

A

I'll start by, Barton, saying that we expect to be paid in full, on the note receivable. We're actively working with Capmont to achieve that. There is no performance benchmark as it relates to the note receivable. It's very clear on being due at certain periods. And so we are fully anticipating to receive those payments. I wouldn't want to speculate beyond that.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then just the final thing here, just to step back again on the Postal Service, with Steiner beginning to -- his regime, we're beginning to see what they do, how they flex kind of the business versus DeJoy. So just -- Joel, do you still have hopes that under Steiner we're going to see a less aggressive rate hike regime over multiple years than we saw with DeJoy, or is the jury still out on that?

Joel Quadracci

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

A

Well, look, I think he's -- if you watch his testimony, it's a good hint. And I'd say that he's doing a very good job of simplifying the problem for Congress and trying to simplify it and get people more on the same page in general. What people forget is when you talk about the Post Office, it's a big organization, but if you talk about the postal system, which is the economy around the Post Office, it's a \$2 trillion economy that uses the Post Office. And so there is significant impact to the economy about what happens with the Post Office, and people forget that. And so what he's clarifying is, look, we have this mandate that started in 1971 that we have to deliver to every household six days a week.

Every time it's been pushed to kind of pull back from some of those mandates, politically, it hasn't been able to happen. Now, in 1971, as a little history, when they did this, Congress anticipated that there had to be some public sharing of cost to be able to create that ongoing delivery. And so they subsidized the Post Office by the tune of about \$460 million a year. That ultimately kind of went down into the 1980s because they saw that the Post Office, through its postage, could start sustaining itself without that. They didn't anticipate the internet. They didn't anticipate all this, but they did anticipate that there may be funding from time to time. So he's reminding them of that. And today, that equivalent would be somewhere in the neighborhood of about \$10 billion to help support it.

And I have always believed that at some point, the taxpayer has to step in because there's no business that can have their hands handcuffed to be able to do what they have to do and the infrastructure cost to do it in and pay it through your other users. And so I think he's got a lot of attention, and I think there is some momentum there to kind of look at it from the standpoint of what's good for America, what's good for the consumer. Again and again, the consumer has weighed in on wanting to have a Post Office. And you think about the things in that economy, the \$2 trillion economy, things like getting your prescription drugs when you're in a rural area, that goes through the Post Office.

And so I actually have a renewed optimism that if there's a time where maybe a Postmaster General like David Steiner, as opposed to DeJoy, who is very good to work with, works well with Congress, can crystallize the problem and try and bring a realistic solution to it once and for all. And so I actually have a little bit of optimism, but that's also enhanced by the fact that our additional investments we've done in co-mail with Enru and getting to high density, that waterfall of different opportunities we've created for the clients to offset these costs, will help bridge until we figure out what way the Post Office is going to go. I don't think it's politically viable to let the Post Office fail.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right, well, let's hope not. Thank you guys very, very much. I appreciate it.

Joel Quadracci

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

A

Talk to you soon.

Operator: Thank you. The next question comes from Mark Zgutowicz with Benchmark.

Joel Quadracci

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

A

Good morning, Mark.

Mark Zgutowicz

Analyst, The Benchmark Co. LLC

Q

Good morning, guys. Nice to be on board here. Just looking at your agency business, down 18% year-over-year and the underlying growth that we're seeing, coming from Rise generally in that business. Just curious how you anticipate, or when you anticipate a visible acceleration there. You've obviously got macro pressures, but curious as you look at Rise and the initiatives that you talked a bit about there, how that may offset some of those pressures. And if we're looking at next year, its first half versus second half, in terms of realizing some of those growth benefits from Rise. Thanks.

Joel Quadracci

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

A

Yeah. Yeah I'd say in the quarter, we saw -- we did see some pullback from existing customers just with some of the macroeconomic types of things that are going on. We certainly are spending a lot of time continuing to enhance what Rise does. As a reminder to people, we really came from performance media to now full stack media. And one is a little bit more transactional, whereas the other has a longer sales cycle. And so part of this is the transition to that, that I feel good about ramping up as we get into towards the end of the year, but certainly into 2027.

Our expectations are to continue to ramp that part of the agency solution side, but as well as ramping up the other parts of agency solutions, which is Betty creative, et cetera. But that the question's a good question because again, you're sort of switching from a little more transactional to more holistic, and those cycles are longer. So that combined with some of the macroeconomic stuff and your regular, some you win, some you lose, kind of explains where we are.

Mark Zgutowicz

Analyst, The Benchmark Co. LLC

Q

Thanks, Joel. And then Tony, just one last one for me. Tony, in terms of the free cash flow range, obviously you're reiterating that guidance, but just as we look at that range, \$40 million to \$60 million, it's obviously a wide one. Just if you could maybe talk about some of the puts and takes on that range, including perhaps CapEx trajectory there, which is up a couple million dollars this quarter. But just some of the puts and takes there as you look at, potentially coming in at that low end versus high end of that range? Thanks.

Anthony C. Staniak

Chief Financial Officer & Treasurer, Quad/Graphics, Inc.

A

Great. Mark, first I want to say welcome to the call and excited to have you covering the stock. So thanks for picking us up. And on the CapEx side, we've guided for the year to \$55 million to \$65 million, midpoint of \$60 million. I mean, we will spend that amount if we think there's opportunities that further enhance our growth and automation possibilities. But last year as an example, we didn't spend the full CapEx range that we had as we looked at timing of investments and where we wanted to put our money.

So it's possible that in puts and takes, that CapEx could be an area that causes that within that range to go towards either a higher or a lower end. The other two components that kind of walk us from adjusted EBITDA down to free cash flow, interest expense, we can predict that pretty well. And restructuring, we think we've got a good hold on that for the year. I would say consistent kind of from a cash payment standpoint from where it was last year. So CapEx and then ultimately where the adjusted EBITDA lands are the two biggest drivers that will flex us within the range.

Mark Zgutowicz

Analyst, The Benchmark Co. LLC

Q

Great. Well, thanks, Tony. Appreciate it.

Joel Quadracci

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

A

Thanks, Mark. Operator?

Operator: The next question -- yeah, the next question comes from Kevin Steinke with Barrington Research Associates. Please go ahead.

Joel Quadracci

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

A

Good morning, Kevin.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Great. Thank you. Good morning. So just to maybe wrap up on the discussion about the Postal Service. You mentioned that the Postal Service had been granted additional flexibility that will keep it solvent. I know there had been some discussion about raising, I think, the debt limit for the Postal Service and also giving it the ability to actually be able to raise prices more. Just any more insight into the flexibility that they now have?

Joel Quadracci

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

A

Yeah, I mean, part of this, my belief is he's purposely trying to create a crisis because none of this is really that new. I mean, everyone knows that the Post Office has been sliding and struggling. They're getting relief on some of the pension to create that liquidity. Their debt limit hasn't been raised in years. And so to most of us, it's like a logical ask to be able to raise it to something that's more realistic from where it is.

So it's always been the problem that there's structural challenges with how the Post Office is set up. They do have a regulatory oversight group with the PRC that regulates how they can do pricing. His belief is he wants more flexibility in how to do pricing. Like, he would probably tell you that a first-class stamp, are you really not going to use a -- buy a first-class stamp if it's \$0.95 versus \$0.85? And if you look at relative to the rest of the world, our stamp price is significantly lower. And if you look at Europe, most of the time they're delivering these letters a couple 100 miles for a significantly lower stamp price, you're delivering across an entire continent. So these are not new things, but it's how do you fix the structure so that it has a fighting chance? And the big one is the mandate. Look, it's like if everybody wants a gas line at their house in the United States, the United States government's going to make sure that we put the gas lines in, almost like a utility, right? It is a utility.

For the Post Office, people believe that they deserve to have the Post Office coming every day. I think that there's been debate in the industry, could we do with less dates, days of the week? I think most of the industry would say yeah. But every time you try and do that, the political nature of this, where everybody and their own constituents start complaining that you're going to close my Post Office, it doesn't happen. And so his very frank comment to Congress is, we can do this. We can deliver six days a week. We can increase the number of addresses we have to go to, by \$1 million but if that's the case, -- a million addresses.

But if that's the case, you have to pay for it because the rest of the infrastructure, the rest of the users of the Post Office can't make it work. The only way that will make the Post Office work is a short-term thing of raising the rates by more than inflation, which is what's been happening. That's a death spiral because it kills the hand that feeds you while not solving the problem of giving the taxpayer what they want. And so that's really the simplistic approach I think he's taking, and I'm supportive of it.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Great. That's helpful color. Just also following up on the temporary surcharge. It doesn't sound like it's that meaningful, but just can you give us a sense of just how much of your cost base that applies to? And is there any meaningful benefit just to your reported revenue from that temporary surcharge flowing through?

Anthony C. Staniak

Chief Financial Officer & Treasurer, Quad/Graphics, Inc.

A

Yeah. I don't think you should think of this as a material or significant benefit to revenue. From a bottom-line standpoint, it is just an offset of the increasing cost, so it doesn't make us better or worse off. And as far as a percentage of our cost after the print and paper itself, the ink is a relatively lower component of the cost structure. So this is not a highly significant item.

Joel Quadracci

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

A

A place where which we didn't talk about, I'll just mention, is with diesel fuel being up significantly, obviously our freight side is impacted by the significant increases in rates. But for years now, we've had a weekly surcharge that

bounces around with diesel, and so we're not impacted from that from a freight standpoint, which is really important. So we almost -- it's like we already have that surcharge structure in place on a weekly basis on the diesel side, which would have been more impactful.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay. Good. Understood. So just again, to circle back on the agency solutions, you mentioned a pullback from some existing clients. Do you expect that to pick back up again? Or have you had discussions with those clients about why they pulled back and again, when it might come back? Just any more color, I guess, on that side.

Joel Quadracci

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

A

Yeah. I'd say, it kind of say it depends who you talk to. And reasons for pullback are kind of on all various different places. But as I talk to people, I think one of the things that people believe will be one of those good things is just the tax returns that people are expecting refunds at a different level this year. So some of the industry will talk about that's a positive coming. But again, I think that you're just living in this time where you wake up and suddenly, we're in a war. You're having this disruption in supply chain. These surcharges are coming across the board to pretty much all our customers from, their products.

And so I think it's just a matter of people trying to figure it out, and you're early in the season here. And that's when people kind of are sort of ebbing and flowing. What comes -- again, I think that, I don't feel that it's significantly disrupted to the point where we're going to see in our product lines a huge disruption. So there may have been some pullback in the agency side, but that didn't necessarily reflect a pullback in the higher revenue side of print. We didn't see people pulling back because of those issues.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay. Understood. That's helpful. You highlighted some momentum in audience strategy services and tying that to the data stack. Just I guess any more comment on that and one of your best assets is that household-based data stack and maybe more commentary on how that continues to benefit you.

Joel Quadracci

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

A

Yeah. I'd say that it benefits us through other product lines mostly, which is like if you talk about direct mail, DM, and the concept of the DM agency we have. What the DM agency heavily does is, yeah, we set up direct mail for them, but more importantly, it's what's the audience you're going to? That's what the agency does. It's help them at the beginning of how do you find really good audience. And that's one of the biggest challenges in marketing today is getting audience, new audience. People who are confirmed recent transactors who fit your profile of the product you're selling. And so the data stack helps us with that to really sift through and find out who is the right audience for you in combination with other datasets.

We think ours brings another level to it because of the nature of the household personalities we can see. And that's where it really starts, and then it equates into, okay, if we use that audience and we do a direct mail piece for you, did it work better or not? And what we're seeing is we're enhancing the effectiveness of the print piece, and that's allowing us to win more of those big invoice products, and allowing us to gain trust to be the advisor as its agency to people who are using some of our other product lines.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay, great. That's all the questions I had. Thank you. I will turn it back over.

Joel Quadracci

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

A

Great. Thank you. Operator any more questions?

Operator: No. This concludes the question-and-answer session. I would like to turn the conference back over to Joel Quadracci for any closing remarks.

Joel Quadracci

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

Okay. Thanks, operator. And thank you everyone for joining today's call. I just want to close by reiterating that Quad remains committed to our strategic vision, leveraging our integrated marketing platform to drive diversified growth, improve print and marketing efficiencies, and create meaningful value for all of our stakeholders.

With that, thank you, and we'll see you next quarter.

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

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