Corrected Transcript

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# Quad/Graphics, Inc. (QUAD)

## Q2 2026 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to Quad's Second 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 & Presentations link. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Julie Fraundorf, Quad's Executive Director of Corporate Development & 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 are 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 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 EBITDAs, 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.

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### Joel Quadracci

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

Thank you, Julie, and good morning, everyone. I'll begin with key highlights as shown on slide 3.

Quad's second quarter results were in line with our expectations, and we remain on track to achieve our full year 2026 guidance. During the quarter, net sales increased compared to the second quarter of 2025, representing progress toward our 2028 projected full year revenue growth. We also generated strong free cash flow in the second quarter. Our strong balance sheet continues to provide financial flexibility, enabling us to return $13 million to shareholders in the first half of 2026, including $10 million in regular cash dividends and $3 million in share repurchases. We continue to make strategic investments in growth areas across agency solutions and targeted print categories that support our revenue diversification strategy. One example is the expansion of our Packaging business into Salt Lake City, which we have highlighted on slide 4.

Our Packaging business continues to scale, delivering year-over-year growth in 2025 and expected growth for full year 2026. To build on that momentum, we're rounding out our national packaging footprint with a new facility in the western US. Joining existing operations in Franklin, Wisconsin and Spartanburg, South Carolina, the Salt Lake City facility enhances our ability to serve clients across the country and pursue additional packaging opportunities with both existing and new clients. For our clients, the expansion will help reduce lead times, improve logistics efficiency, and support packaging programs across multiple regions while maintaining the quality, consistency, and partnership our clients expect from us.

The 100,000-square-foot facility is expected to be operational in the fourth quarter of this year. Its location provides direct access to major transportation routes and key markets across the western United States. Additionally, Salt Lake City is an established hub for high-growth consumer packaged goods companies and is near co-manufacturers that work with producers like Quad to print, fill, and package goods on behalf of CPG brands. As we grow our national presence, we continue to invest in our global packaging operations, operations which serve clients through our facility in Santo Domingo, Dominican Republic alongside strategic packaging partnerships in Central America and across Asia.

Transitioning to slide 5, Quad's MX offering features a suite of integrated solutions across creative production and media that are supported by cutting-edge intelligence and technology. Our unified marketing platform helps clients simplify complex workflows and improve their marketing effectiveness across physical and digital channels.

As more clients adopt Quad's creative, media, and marketing solutions, we continue to deepen existing account relationships with long-time partners. A recent example is Wakefern Food Corp., which is highlighted on slide 6. We have significantly expanded our work with Wakefern, the nation's largest retailer-owned grocery cooperative, as Wakefern pursues a more banner-driven marketing strategy and selected Quad for our ability to deliver integrated solutions at scale.

Building on our long-standing work supporting Wakefern's print retail circulars, we now provide paid media strategy, content creation, and in-store retail media services. These solutions are designed to strengthen each of Wakefern's eight supermarket banners while preserving the local identity of their 400 member-owned stores. A key component of this expansion is Rise, which now serves as Wakefern's media agency of record. Powered by our proprietary data capabilities, Rise leads the client's media strategy, planning and buying, and is enabling more precise shopper targeting, localized media execution, and improved media effectiveness.

Wakefern will also deploy In-Store Connect by Quad in 30 ShopRite locations later this year. ShopRite is Wakefern's flagship banner with 298 locations across the Northeast, making it the largest retailer to-date to adopt their in-store retail media solution. This deployment is significant as it expands opportunities for consumer packaged goods to scale their campaigns right at the point of purchase. Examples like Wakefern demonstrate how we can expand existing print relationships into broader, higher-value marketing partnerships. These engagements typically increase share of wallet, diversify revenue streams, and create opportunities for more recurring client relationships.

We continue to expand our in-store retail media network with regional grocers as shown on slide 7. I'm pleased to share that we will be increasing our In-Store Connect footprint with Vallarta, a fast-growing grocery chain in California known for providing high-quality, authentic Latin American ingredients to its customers. Following successful CPG adoption across the client's initial test stores, Vallarta has decided to more than double its in-store count. Once we complete the rollout later this year, the majority of Vallarta stores will leverage our in-store media network.

Additionally, we just signed a leading grocer on the West Coast that plans to deploy In-Store Connect across an initial 25 stores. This partnership will further extend our reach in California, one of the nation's largest grocery markets, alongside our existing partnerships with Vallarta and The Save Mart Companies. Combined with a 30 new Wakefern stores, this represents meaningful progress in scaling our in-store retail media offering. By adding new retailers and stores to the network, we increased the offerings value to consumer brands seeking broader reach. Growing advertising interest in turn attracts new retail partners, creating a powerful flywheel that supports continued expansion of and revenue generated from our retail media network.

Moving to slide 8, we spotlight our work for Jelmar and its CLR Brands as an example of how our integrated agency model is helping heritage brands drive measurable business results by connecting with a new generation of consumers. Since 2023, Rise and Betty had served as Jelmar's media and creative agencies of record, working together to reposition the appeal of [ph] CLR Brands (00:24:33). Rather than focusing solely on product performance, our strategy is centered on building stronger emotional connections through culturally relevant, creative, and more effective media activation.

Most recently, the agency's collaborate on So Clean. So Hot, a campaign that combine creative storytelling, influencer partnerships, and cross-channel media activation to drive brand awareness, engagement, and sales. Betty developed a creative platform and messaging while Rise activated the campaign across influencer marketing, addressable TV, paid social, and programmatic media. Following the campaign's launch, CLR brands experienced notable sales growth along with significant gains in consumer engagement, including a 106% increase in Instagram reach, strong TikTok audience growth, and video completion rates exceeding 50%. Through continuous optimization of audiences, channel mix, and creative assets, we improved the efficiency of the client's media throughout the campaign, significantly decreasing its cost per thousand impressions across quarters.

These outcomes earned Betty and Rise an Effie Award, one of the advertising industry's most respected awards for marketing effectiveness. This success demonstrates the value of Quad's integrated approach. By combining creative, media, data, and analytics connected with execution, we're helping clients deliver strong business outcomes, while expanding opportunities for long-term agency growth.

Turning to slide 9, Quad also received notable industry recognitions during the second quarter, providing independent acknowledgment of our integrated marketing model. Quad was named at Ad Agency's (sic) [Ad Age's] (00:26:24) Agency Report for the seventh consecutive year, placing us among the world's largest agency companies. We were also included in MM+M's Agency 100 for the third straight year, reflecting our expertise and continued momentum in healthcare marketing. Additionally, Rise was recognized as one of 35 notable providers in Forrester's report, The Media Management Services Landscape Q2 2026. We believe this kind of independent recognition is acknowledgment of the agency's full-service omni-channel offering, including strengths across audience development and insights, media activation, and measurement. This increases awareness of our capabilities among prospective clients at a time when many brands are evaluating agency partners. As a result, it help strengthen visibility in the marketplace and supports continued growth of our media and agency pipeline.

While we remain focused on accelerating our transformation as a marketing experience company, we continue to navigate a dynamic, macroeconomic environment with disciplined operational execution as shown on slide 10. As a result of the renewed conflict and continued geopolitical instability in the Middle East, certain petrochemical-based supply chains remain under pressure. Volatility in energy markets persist, particularly for diesel and other transportation-related costs. Ongoing security concerns continue to create uncertainty for global shipping routes, including traffic through the Strait of Hormuz, contributing to longer lead times and elevated logistics cost in some markets. As a result, we continue to experience cost pressures in certain areas of our business, most notably ink. We are actively managing these challenges by diversifying our supplier base, optimizing inventory planning, and implementing targeted price actions where appropriate.

In addition to supply chain volatility, postage remains a significant macroeconomic challenge for many of our clients as it represents the single largest marketing expense for mailers. On July 12, the United States Postal Service implemented its most recent increase, which we estimate will result in an average postage increase of up to 10% for many of our mailing clients. While the USPS continues to rely on price increases as one of its primary levers to address its financial challenges, Postmaster General, David Steiner, is pursuing solutions to address what he calls a broken USPS business model. Among other changes, the Postmaster General is advocating for the return of the public service reimbursement that once compensated USPS for its universal service obligations.

Quad supports the PMG's proposal on its entirety as we believe it will provide the USPS with the necessary financial flexibility to pursue growth through avenues beyond price increases. As always, Quad's postal affairs team remains actively engaged with policymakers in Washington as well as the Postal Service working on behalf of our clients and the broader mailing ecosystem. In addition to our postal affairs work, we continue to help mitigate ongoing rate increases by deploying the same two-pronged approach we've done for decades, which focuses on maximizing postal cost savings while improving response rates. Our layered postal optimization model combines various co-mail sortation and bundling solutions to generate substantial client savings. Meanwhile, audience identification services in innovative mail solutions like At-Home Connect, our self-service direct mail automation platform are designed to improve the efficiency and effectiveness of the mail clients' spend. By generating stronger mail response rates, clients are often able to more than offset increased mailing costs.

On slide 11, we show how Quad is embedding AI across our agency operations, manufacturing processes, and workflows to create lasting cost efficiencies while improving client outcomes. We view AI as an integral part of each business unit's infrastructure that we deploy to improve efficiency, reduce manual processes, accelerate speed to market, and drive better business outcomes for both Quad and our clients. At Betty, the agency supports clients by using a blend of AI technology and traditional studio capabilities, creating scalable, high-quality assets at fast speeds and low cost. For example, the team can use AI to create realistic models, apply actual product images to those models, and generate set imagery.

At Rise, the agency has embedded AI into Connex, a proprietary agency platform. Connex analyzes campaign performance in real time across any online and offline physical media investment and provides a suite of custom AI agents to help support media analysis and optimization. That reduces manual work while allowing our media experts to spend more time strategically advising clients. In manufacturing, we're applying AI and automation to optimize production schedules, anticipate maintenance needs before equipment failures occur, and reduce manual intervention, helping improve throughput and reduce downtime.

Before I turn the call over to Tony, I would like to thank our employees for their continued dedication and hard work. Earlier this month, we celebrated Quad's 55th anniversary. Each employee has played a role in building the business we are today. And their continued commitment to urgent innovation and obsessive collaboration are the key to achieving Quad's long-term goals.

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

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## Anthony C. Staniak

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

Thanks, Joel, and good morning, everyone.

On slide 12, we show our diverse revenue mix. Net sales were $578 million in the second quarter of 2026, an increase of 1% compared to the second quarter of 2025. The increase in net sales was primarily due to higher paper sales from an increase in Quad-supplied paper and higher logistics sales. Net sales were $1.2 billion in the first half of 2026, a 2% decline compared to the first half of 2025 when excluding the 2% impact of the February 28, 2025 divestiture of our European operations. On a year-to-date basis, the decline in net sales was primarily due to lower large-scale print volumes and agency solutions sales, partially offset by higher paper sales. Consistent with first quarter performance, our agency solutions sales were impacted by pullback in spend from certain existing clients and our continued evolution from project-based work toward omni-channel agency of record engagements.

Comparing our net sales breakdown between the first half of 2025 and 2026, our revenue mix, as a percentage of total net sales, increased 2% in our targeted print offerings driven by direct mail, packaging, and in-store, and also increased 1% in our logistics business due to fuel surcharges during 2026 and increased volume and additional list services provided through our enhanced co-mail operations. These increases were offset by a 2% expected organic decline in the large-scale print product lines due to magazines and retail inserts, and also a 1% decrease in agency solutions.

Slide 13 provides a snapshot of our second quarter 2026 financial results. Adjusted EBITDA was $42 million in the second quarter of 2026 as compared to $43 million in the second quarter of 2025. And adjusted EBITDA margin declined from 7.6% to 7.3%. The decrease in adjusted EBITDA margin in the second quarter was primarily due to the mix of net sales, including higher paper revenue from an increase in Quad supplied paper. On a year-to-date basis, adjusted EBITDA was $87 million in 2026 compared to $89 million in 2025 while adjusted EBITDA margin increased from 7.4% to 7.5%.

Adjusted diluted earnings per share was $0.24 in the second quarter of 2026 as compared to $0.14 in the second quarter of 2025, an increase of $0.10 or 71%. Year-to-date, adjusted diluted earnings per share was $0.48 in 2026 compared to $0.34 in 2025, an increase of $0.14 or 41%. The increases are primarily due to higher net earnings, including lower interest expense due to reduced debt, and lower depreciation and amortization, and on a year- to-date basis also from the beneficial impact of share buybacks. Beginning in 2022, we have repurchased 7.9 million Quad shares at an average price of $4.27 per share, representing 14.1% of our total outstanding common stock as of that time. This includes 445,000 shares repurchased year-to-date for approximately $3 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 June 30, 2026, there were $66.3 million of authorized repurchases remaining under the program.

Year-to-date, free cash flow was consistent with last year at negative $66 million in the six months ended June 30, 2026. This included $41 million of free cash flow generation in the second quarter of 2026, an improvement of approximately $7 million from the second quarter of 2025. During the first quarter of 2026, we saw a $7 million decline in free cash flow year-over-year mainly from higher inventories that were then utilized during the second quarter. We show the seasonality of our free cash flow and debt leverage on slide 14.

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 seasonal pattern for our free cash flow and debt leverage. When removing the impact of seasonality, we have reduced our net debt by $54 million or 12% from June 30, 2025 to June 30, 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 June 30, 2026, we had not received payment of principal and interest for the first annual installment of the note receivable totaling approximately $6 million. And as a result, our net debt balance was $6 million higher than we expected. We are working with Capmont on this past due payment and received limited payments in the second quarter. We expect to continue receiving limited payments in the third quarter as Capmont pursues various alternatives to meet their obligation under [ph] the note (00:37:37) receivable.

Slide 15 presents our balanced capital allocation strategy, which is fueled by our free cash flow and 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; Thomaston, Georgia, and Lima, Peru. We began the process of closing our Peruvian operations and selling our building in Lima in the second quarter of 2026. With this strong cash generation, we intend to continue investing to drive growth as a marketing experience company, maintain lower 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. Our next quarterly dividend is payable on September 4. We are pleased to return capital to shareholders through the quarterly dividend and opportunistic share repurchases.

Slide 16 includes a summary of our debt capital structure. At the end of the second 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 $208 million. Our next significant debt maturity of $205 million is not due until October of 2029. As a reminder, 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 derivatives, we have 53% of our interest rate exposure capped if interest rates rise. And with the interest rate collar, we would pay lower interest expense on 66% of our debt if interest rates decline.

We reaffirm our 2026 guidance despite winding down operations in Peru, as shown on slide 17, 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 ongoing improvement trend from a 10% net sales decrease from 2023 to 2024 and a 5% decrease from 2024 to 2025, excluding the European divestiture. Consistent with the trend from last year, net sales achieved in the second quarter of $578 million, are expected to be the lowest of the year, followed by increasing net sales in the third and fourth quarters during our 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. As expected, adjusted EBITDA of $42 million in the second quarter of 2026 was lower compared to the first quarter. And now we expect higher adjusted EBITDA in the third and fourth quarters, consistent with the projected net sales trend.

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 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 benefit of approximately $9 million 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 one of the most technologically-advanced platforms in the industry. We intend to continue investing in growth and automation both in our print platform such as digital presses in direct mail as well as in our service lines, including In-Store Connect by Quad.

During the quarter ended June 30, 2026, the company received an adverse income tax and value-added tax litigation ruling related to a 2011 audit assessment of our Mexican subsidiary obtained through the World Color acquisition. There are a range of outcomes on the final settlement amount as well as uncertainty regarding the timing of payments. We have accrued $17 million as of June 30, 2026, which will be adjusted in subsequent periods when a final settlement is reached.

As mentioned earlier, we expect to generate net proceeds from the sale of our Lima, Peru building in addition to smaller proceeds from selling equipment and other assets. From a net debt standpoint, while timing is uncertain, we believe that for these second quarter 2026 events, the cash proceeds received from the sale of assets in Peru will substantially offset the cash payments for the Mexico tax settlement.

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, the timing of proceeds from asset sales, or the Mexico tax settlement payments. We continue to closely monitor the ever-changing business climate driven by factors including ongoing 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 as needed to preserve profitability.

Slide 18 includes a summary of our 2028 financial outlook and long-term financial goals as we continue to build 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 for full year 2028 with a sales mix of higher targeted print, multi-mail, and paper sales. In addition, by 2028 we continue to expect to see increased adjusted EBITDA margin over our current margin. As our sales mix changes, the size of the adjusted EBITDA margin increase will depend on the components of our sales growth. Regarding free cash flow, we expect to improve our free cash flow conversion as a percentage of adjusted EBITDA from approximately 26% in 2025 to 35% by 2028 primarily due to lower interest payments on decrease in 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.

As we look ahead, we believe the combination of improving revenue trends, resilient cash generation, low debt leverage, and targeted investments in higher growth offerings positions Quad well to create long-term shareholder value.

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

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Mark Zgutowicz from Benchmark. Please go ahead.

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

Good morning, Mark.

**Mark Zgutowicz**
*Analyst, The Benchmark Co. LLC*
Q

Thank you. Good morning guys. Nice to see the improvement in targeted print, but good to be with you this morning. Just a question on the revenue upside. Did you witness any growth outside of paper and logistics? And perhaps, Tony, you could discuss the gross profit dynamics that came with that revenue upside. And also, curious why you didn't perhaps tighten the annual revenue guidance with that upside. Is that just for conservative reasons or is there anything in the second half we should be aware of? That's the first question.

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

Yes. Yeah, I'll start there. So, this is Tony. We had revenue growth in direct mail in the second quarter as well as in our in-store print operations. That's in addition to the paper sales, the impact of ink surcharges that we're doing right now due to how petrochemical rates have increased. And we also saw volume and fuel surcharges in logistics. From a gross margin perspective, paper, ink surcharges, fuel surcharges, more like pass through at lower rates of profit. So, that's going to impact the gross margin, which you even saw fall through to our EBITDA margin being, I think, 30 basis points lower than prior year. As you look out to the second half of the year, Mark, we typically don't narrow the revenue guidance until we get through the third quarter. With being a seasonal production business, we like to see how that third quarter and early fourth quarter are shaping up because customers can add or subtract volumes even in quarter as we go along.

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

Especially in sort of the retail space, as they see the health of the economy, you'll definitely see them sort of adjust fire. That's why – so, just additional color on why we wait.

**Mark Zgutowicz**
*Analyst, The Benchmark Co. LLC*

Q

Got it. That's helpful. And then, on Wakefern, the new business there, curious if you could talk a little bit more about that in terms of any In-Store Connect revenue margin, advertising specifics there, and how you may scale that from the starting point, that 30 ShopRite stores? And then, [indiscernible] (00:48:16) – for my last one in here just on the same point. If you combine that with Vallarta and the West Coast customer, Joel, that you mentioned, do you feel like you're starting to see some synergies in your retail media go-to-market strategy or is it too early to make that assessment? Thanks.

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

A

Sure. So, starting with the first one, Wakefern, I refer to sort of the thing that we've assembled here of services and products working together as one big flywheel. And so, Wakefern is a great example where we've been doing business with them. We had a relationship, but now they're looking to shift gears and also looking at the landscape and trying to do it in a much more effective way. And so, that resulted in sort of creating all this revenue into the other agency spaces. In addition, they've been watching how do you activate the in-store traffic, which is where people have intent to buy.

And so, we've been talking to them about In-Store Connect, and we're really excited that they're going to go with [ph] a forecast (00:49:18) of 30 stores relative to their size because the stores that they're going into in the Northeast tend to be a little bit smaller footprint than the big guys, but have significantly more traffic. And so, when I think about Wakefern and what they're doing and us sort of winning the In-Store Connect, the Northeast is a really important geography for us, for the CPGs, as we build out this platform. And I'll remind you that we're assembling a network of lots of medium-sized to lower-sized grocers who can't do it on their own relative to someone like a Walmart who are doing it on their own. And so, the more the merrier for all of them. And then for the CPGs, the more we can round out the geography and get more eyeballs by adding more stores, the more they can start to commit more national budget to us versus maybe some local budget and maybe some, call it, test budget.

And so, that kind of leads to your second question of what I like about Vallarta is they're doubling the size. And this is after doing – they were pretty early on doing a test and they've seen it's not just the media that's come in, it's the fact that we're consistently proving we're moving cases. So, if I'm a CPG, yeah, of course, I want media exposure, but they get a lot of request from retailers to spend money on in-store media, but not necessarily drawing a direct conclusion to moving product. In our case, we're able to prove that we're actually increasing spend on moving cases and even have a category lift as opposed to individual brand lift.

And so, all these wins kind of work together to help round out sort of this national footprint and get us up into a store count and really population exposure that creates those eyeballs, that creates that flywheel where now we can get CPGs more and more interested. And I'll remind you that they are watching us. And, in fact, we were [ph] adept to (00:51:21) purchase earlier this summer, early spring down in Chicago on a panel with Nestlé and talking about the results that we've seen. And they confirmed that this has been a good thing for them, that they really look at the combination of the media exposure, but really the fact that they've seen movement of product.

The other thing about one of the new stores that we just signed who, at some point, hopefully we can share their name, but they're not only in California, but they also have brands that go into Arizona and Texas. And so, the goal there is to how quick can we be testing with them. And I'll tell you that they already had a test store up with our latest formats, which was really just a quick test, which resulted in this new 25-store expansion of their test. Did I answer all your questions there?

**Mark Zgutowicz**
*Analyst, The Benchmark Co. LLC*

Q

Yeah, you did, Joel. That's great. Maybe just one final one and I'll hop back in the queue. Just as you mentioned, like Nestlé and some of your other stronger CPG partners, is it a stretch to think that you can possibly use them as some leverage to get into some other stores or is it really just your feet on the ground and just kind of continuing to press the success that you're having there?

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

A

I think it's all the above. Again, one of the things – I mean, I wish it goes faster, but [ph] one of the things (00:52:48) that happens with retailers is it's a complex experience that they have in stores. And they have just about every part of their company involved in the decisions. In some cases, the cleaning staff get involved and` is their kiosk going to cause problems as they keep the stores tidy. So, when it comes to new products like this that impact the in-store experience, it just takes longer for them to navigate and get everybody on the same page. And so, I think there will be a flywheel effect. As you see known brands that are well-respected like Wakefern come to the table, there are people who are leaders in adopting technology and others who purposely want to be fast followers.

And so, I think you'll see as retailers like Wakefern come on and Vallarta ends up having the majority of their stores on it, you will start to see the people wanting to jump on. That's our hope. But also, I think as you see CPGs respond to it by bringing bigger budget to it rather than just local budget or test budget, that will prove to people that this is something they should be a part of.

**Mark Zgutowicz**
*Analyst, The Benchmark Co. LLC*

Q

It makes sense. Good stuff. Thanks, guys.

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

A

All right. Thanks, Mark.

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

A

Operator, next question?

**Operator**: And the next question comes from Kevin Steinke with Barrington Research Associates. Please go ahead.

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

A

Hey, Kevin.

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

Great. Thank you. Good morning. Thanks. Just wanted to start off by asking about some of the price increases you've implemented to offset some of the cost pressures related to the macro environment. Just kind of how meaningful those maybe were in the quarter in terms of contributing to sales and how we should think about that trending in the second half as well as it relates to sales.

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

Yeah, I'll start and Tony can kind of expand. When we think about like for logistics, the big cost variable there is diesel fuel. And Quad has had to put in a weekly surcharge to the base rate that we charge several years ago as volatility was around. And so, that's adjusted sort of weekly based on what happens with diesel. And so, you'll see, as diesel prices ebb and flow, that makes its way pretty quickly. On the ink side, a lot of the products we use are petroleum based, but also market based on things like pigments that compete with other industries. And again, as petroleum changes, that changes the cost and we've had to increase that not on a weekly basis. It's usually onetime. But remember, some of those costs take a while to filter through the supply chain. So, even though you may have had a decrease in diesel at a point in time, it may take significantly longer for that to reflect in the cost that we have to incur.

And, Tony, maybe you could reflect on sort of the meaningfulness of it.

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

Yeah, I'd say, Kevin, in the first half of the year, you're talking like a low-double-digit millions impacts from fuel surcharges and then ink surcharges linked to petrochemical. I think the good news there is we're holding on to bottom line profit dollars. We're not benefiting from it certainly, but we're holding on to our adjusted EBITDA dollars on that, which were roughly flat year-over-year. And then, looking out in the second half, I would expect that some of these trends to continue. We'll continue to see on a daily basis how things move with Iran and other issues.

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

All right. Great. That's helpful. You talked about how you expect to be within your guidance despite some of the macro uncertainty. And just want to get a sense of maybe how your clients are feeling at this point in time. I noticed or I note that on your last call you had said maybe some agency solutions clients took a brief pause. But any more thoughts on how your clients are reacting to this volatile environment?

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

Yeah. I guess it's a little bit of depends who you ask and what category. I mean, I think the grocery space is under tremendous pressure a lot from sort of changing trends and people choosing healthy food and you have the GLP-1 effect. So, lots of pressure there for our customers. But I think we can still continue to see investment in driving traffic, which they need to do. Again, across a lot of different retailers, I think you still have a lot of pressure on the lower half of the income scale with inflationary cost. But, again, I think we're feeling like we're in fairly good place with our clients. We do worry about the follow-on effects on postage. We'd gone through a significant timeframe of significant increase over the past five years. And while that 10% that just rolled out was a known factor when they were budgeting last year, which is good, what is the net effect? We still see pressure on volumes because of those postal increases. So, again, I think that we had sort of nothing significant to report on a pullback here or there other than it depends who you ask right now.

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

Q

It makes sense. I wanted to ask a little bit more about the packaging plant that you're launching in Salt Lake City. It's a certainly an encouraging development there. But when you think about capacity utilization, how quickly does that ramp up or how much excess capacity will you have to? I think you mentioned, you know, pursuing new opportunities. Just kind of wondering how you see that dynamic playing out.

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

A

Yeah. I'll remind you, we [indiscernible] (00:59:17) better packaging through a series of acquisitions because we weren't in the space. But if you look back in history before we started consolidating the print industry, most of Quad's growth came from greenfield growth. And the good news in greenfield growth as you put in the technology that you need for the time as opposed to maybe technology that may have been outdated. And the other thing is sort of the cultural [ph] fed (00:59:41) you're building upon a culture you're not integrating – having to integrate things. The downside is the revenue comes later. But we feel very good about our regional strategy because a lot of the products that we print does have a regional sort of impact in terms of deliverability and cost and timeframe and all that stuff. And we've been looking at this for a while. And obviously, since it's going to be operational in the fourth quarter, we've actually been working on this specific one for a while.

We feel very good about it because we're able to start it up with existing work. It's hard to start a plant when you don't have anything to put on the machines. But we have customers who have existing work with us that wants to be delivered in that region. Plus, we have a lot of stuff in the pipeline because I think people are looking for our solution not just from the standpoint of the traditional packaging, but, again, the flywheel effect as they're looking for more help in how their brand appears in packaging, the analytics around making it more responsive to creative content that we can help them with, etcetera, everything that the flywheel has.

And so, I'm feeling pretty good that we will come on fairly quickly with that plant having fairly decent capacity. And the sales force understands that I always want to grow faster. So, I think we made the appropriate investments in personnel and talent and making sure that we are supporting this every which way to make sure we grow this. My goal is to have to add more equipment in the short term.

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

A

And, Kevin, I would just add, when you think about like 2026 versus 2027 numbers, as Joel said, starting up in the fourth quarter of 2026, so not a ton of impact here in 2026. More skewed towards 2027.

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

Q

Okay. Great. That makes sense. I mean, is that something we should think of as meaningful? I know it's a new plant, but it's not I guess materially large relative to the rest of your footprint. But is that something that you think will kind of have a meaningful impact as you look to 2027?

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

A

I do think it'll add in our top line and I would call it lower-double-digit millions as it ramps up. Our packaging plant is at full scale are like $45 million to $50 million plant right? So, this is still in the ramp-up stage. So, low-double-digit revenue there in 2027 and EBITDA margins in Packaging had been roughly like 10%.

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

Okay. It's helpful. I mean – yeah. Okay. Great. Yeah. So, I guess lastly just on this topic and then I'll turn it over. But obviously, it's encouraging that you're seeing demand here on the Packaging side and looking to expand in that category. But can you just kind of again refresh us on the dynamics you see in that market that are driving the growth and motivating you to build more capacity in that area?

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

Yeah. One of the things that's happening – we're in folding carton. And so, one of things that's happening is environmental push to get out of plastics. And so, the space, I think, is growing somewhere around 5% per year, which is healthy growth. And we're in the right area. Our knowledge base is in the right area. And I sort of reflect on one of the examples I think we shared in the past where we redesigned the Energizer battery pack to get rid of the plastic and used an entirely folding carton solution. They ended up spending tens of millions if not a $100 million on reoutfitting their plants that take our packaging to be able to fill the batteries into it based on that design.

So, that's a good example of how, you know, a lot of the CPGs at the retailers are pushing as well to get people out of plastic packaging. The markets that we like to go after are ones that have higher value. Things that are being packaged whether it's pharmaceuticals or higher end things that need more decorative and things like that that have a better margin. Because we don't want to play in sort of the integrated space where it's like pasta boxes where you have to have a paper plant attached to it to make any money. And so, all those dynamics make us feel very good about our investment in this and where we'll go from here.

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

Great. Thanks. That's helpful color. Appreciate it.

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

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

Good morning, Barton.

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**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*
Q

Good morning. Good morning. Thanks for taking the question. I was kind of intrigued by the packaging discussion because this was really – I don't recall this being a particular focus of your 2024 Investor Day with your long-term projections, intermediate-term projections for 2028 that you've reiterated here. Is this kind of an area that's really inflected that you weren't really thinking as much about partly, I guess, maybe because of just recognition of this environmental-driven opportunity? And can you give us a sense if the CapEx that goes into this plant and kind of the revenue contribution from packaging right now in your income stream?

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

Yeah. It's not that we were sort of looking at it and thinking well of it. I think we actually have reflected on it over time that the thing – the approach in packaging is not just because it has better growth space than the other areas of print that we're in, but because it's a part of that marketing flywheel, right? It's a brand awareness thing. It's an advertising piece in addition to a practical product to be able to sell – to be able to [ph] encase (01:05:58) product that moves on the shelves. And so, as we sort of built the Packaging platform through the different acquisitions we did, the thing that we're really focused on is how do you include Packaging in the flywheel of marketing services that we have where we can supply something integrated through our marketing clients.

Because a lot of times, if you're just playing in packaging, you're playing with one part of the company that you're dealing with. When you're dealing with the marketing aspect, you're dealing with a whole bunch of other parts that intertwine. And so, suddenly, we're doing the – like we've talked about what Pura and some of the other CPGs that are trying to get in-store where we're doing the end caps and doing the creative and they're suddenly putting product in the end cap that is packaged. Suddenly, now we can offer a very integrated solution where we can do it all. And so, as we've seen that speed up and people really like the integrated aspect, which has allowed us to win work without just being a singular product coming to the table. That was sort of a signal to us that, okay, now let's go further and faster on packaging because we're not just coming to table as a packaging company. So again, this has been part of the plan, but you have to finish a few steps before you can make that integration work. And we've seen that sort of accelerate over the past year or so.

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

And, Barton, I'd add that when you look at the packaging space, acquisitions in that space, multiples on those are like 8 to 9 times, right? And so, looking at greenfield where we have existing clients that want to go out there, brings us this West Coast presence that will get logistics benefits, it was better for us to do it in a greenfield fashion and expand that way on a lower capital amount.

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

Yeah. And we still look at M&A. But, again, I think that the pace of being able to adapt this plant without all the distraction that comes with integrating acquisitions is a benefit to how we're doing this.

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**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*
Q

I mean, can you give us a sense of how much CapEx this project is? I mean, some ballpark and some sense of packaging size [indiscernible] (01:08:19)

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

Yeah. Under $10 million.

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

And so, in this case, we're leasing a plant as opposed to building it, which, in our early stages of the company, was usually owned. But there's lots of good facilities that we found and we picked one that fits our bill. And so, then it's about putting in the right equipment, which, again, versus spending 8 to 9 times on an acquisition, we're getting this for a much more efficient use of our capital.

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

A

Yeah. So, I think, CapEx part, and we've talked before about this, but it's roughly 2% of our revenue every year we put into it. More than half of that goes to growth and automation. So, this was within our CapEx guidance here for 2026.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

And just Packaging overall in your revenue stream, I mean, you talked about what this plant will do in success, but what is it like?

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

A

It's like around $135 million of revenue, roughly speaking.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

Okay. All right. That's interesting. So, you were talking a lot about In-Store Connect. Can you just give us an update like how many stores total are you in? I know you've got these new deals, expansions, but how large is the network right now and just how big are the revenues in your mix would you say?

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

A

Well, I think the number of stores is important and not all stores are created equally. So, I'd probably put a weighting on Wakefern stores because they have such a significant store traffic that they have relative to the normal store. I'd call it we've gone from – if we have 70 stores today, we're going to be up close to 130 as these new wins roll out. The important thing is geographically diverse. So, building out that Northeast and sort of continue to grow our California in some interesting spaces is really cool.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

but what is kind of the revenue contribution at this point, some sense of that for In-Store Connect?

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

A

Still low, Barton. This is still in the early stages of ramping up.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

Okay. All right. And then, the final thing is, Joel, you were talking about that Quad stands behind the Postmaster General's idea plan for reform. You said that that could lessen the need to kind of lean on just rate hikes. If Steiner's approach were just kind of the plan versus kind of the normal run rate going forward over the years, what do you think normalized postage rate increases would settle in and what do you think it would be? [indiscernible] (01:11:08)

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

A

Yeah. I think you can look at his legislative agenda. [indiscernible] (01:11:12) So, remember, they're mandated and they started in 1971. They're mandated to go to every address in the country, which is over a million new ones every year, much of it rural. So, they're mandated to go to it. So, the challenge that we have is in the past five years they've used pricing to try and fix it. So, you increase pricing dramatically, which lowers the volume using that whole infrastructure, which means that you have to increase pricing because volume went down and it's sort of the spiral. When they first established this back in the 1970s, they recognized that the taxpayer has to pay for this infrastructure to some degree because you can't support it.

And so, there already was taxpayer support back then to the tune of $460-ish million in 1971 [ph] dollars (01:12:02). And so, [ph] what the part of (01:12:04) this thing is, look, if you insist on the mandate continuing and you don't allow us to adjust based on what revenue can support, you're going to have to pay for it. We're going have to go back to that. And if you watch these hearings, and the last one became a little bit overly political with some of the voter stuff that was going on. But when each of the individual senators kind of opined, they each talk about, could you please increase the performance of my local towns and cities? And so, politically, they all seem to think that it's a very important thing to have this mandate. And so, I think his goal is to try and make it less political and being able to do this because it's very bipartisan in terms of what the taxpayer tells them.

And so, there's a series of other things involved there including some relief on what happens with retirement costs. But what we'd expect as an industry and what we would ask the post office as a part of strings attached, so to speak, is get back to increases that the rest of the world gets, which is really associated with inflation, which is used to be measured by CPI and they were capped at CPI. And so, we think that there's a fighting chance to get back to that if pricing – and pricing is not the only mechanism to handle this. If it is the only mechanism, it's problematic and I think people recognize that. That's a long answer, but it's a very complicated topic.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

I appreciate that. I mean, why do you think it takes years to get to a CPI – back to a CPI regime or any chance that could happen?

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

A

Yeah. Well, I think he's trying to get this pushed pretty quickly. I'm going to be spending some time in Washington. I've spent time with him, with our customers, a lot of different people. There's a lot of different users of this, so there's a lot of opinions. But we have to get people to coalesce around that. If we have a fighting chance to have the post office be effective for all of us, they need to get behind supporting this legislative agenda because it's very important and time is of the essence. They bought some time here. But if they don't do it quickly, they're going to come to a bill that they can't ignore. And it truly would be a [ph] bale out (01:14:31) as opposed to paying for infrastructure that the taxpayer wants.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

Okay. Great. And then, just one final question here. With the exit of Lima pending, could you give us a sense of what the revenue and EBITDA impact is of that exit and also just what the size is of that facility in square feet?

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

A

It's a little over 200,000 square foot facility, Barton. We've had good discussions so far with multiple potential buyers. So, it potentially could be a bit higher than the $40 per square foot that we historically used as an average. But outcome is uncertain yet. There's a lot to play out here. From a revenue perspective, it's about $25 million to $30 million of revenue and small adjusted EBITDA.

**Barton Crockett**
*Analyst, Rosenblatt Securities, Inc.*

Q

Okay. Great. Thank you.

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

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

Thank you, operator, and thank you, everyone, for joining today's call. I 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 again and have a great day.

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