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Quad/Graphics, Inc. (QUAD)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Quad's Third 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 investor 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 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 third quarter and year-to-date financial results and updated financial guidance, 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 EBITDA, EBITDA margin, 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.

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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. Quad's third quarter results were in line with our expectations. Driven by strong year-to-date results and continued new business momentum, we are updating full year 2026 guidance, including improving our adjusted annual net sales change guidance range. Our strong balance sheet continues to provide financial flexibility, enabling us to return $23 million to shareholders during the first three quarters of 2026, including $15 million in regular cash dividends and $8 million in share repurchases.

We continue to convert our integrated marketing capabilities into new and expanded client relationships. During the quarter, we saw particularly strong momentum across our direct marketing, in-store and retail media solutions. As shown on slide 4, Quad's MX offering connects solutions across creative, production and media, supported by intelligence and technology. Our unified marketing platform helps clients simplify complex workflows and improve marketing effectiveness across physical and digital channels.

This integrated suite of solutions powers Quad's growth flywheel. Successful execution in one area earns us the opportunity to expand into additional services. As we deliver a broader range of marketing solutions for our clients, we deepen relationships, generate repeat business, and create additional growth opportunities. For Quad, this expands our share of clients marketing spend and diversifies our revenue sources. Clients benefit from a strategic partner who understands their business, seamlessly connects services, reduces handoffs, accelerates speed to market, and delivers measurable results.

Transitioning to slide 5, during the quarter, we announced Direct, Quad's newly branded full service direct marketing agency. As marketers seek greater efficiency and accountability, Direct unifies audience intelligence, strategy, creative, execution and measurement into a cohesive offering focused on delivering results. These connected capabilities reinforce Quad's growth flywheel. Results generate insights that we use to refine strategy, audience targeting and creative, leading to improved performance and increased client investment.

As clients expand their direct marketing programs, we gain opportunities to provide additional agency services and increase print volumes. Our integrated approach has helped our direct mail business steadily grow over the past two years, leading to work with clients such as Valvoline Instant Oil Change, Heartland Dental and Monogram.

Slide 6 highlights one of Direct's newest partnerships with a national financial services firm. The client engaged Direct earlier this year to help restart its direct mail student loan acquisition program after a multiyear pause. As the client rebuild its direct marketing capabilities, it sought a single accountable partner to help increase booked loans among undergraduate and graduate students. The client chose Direct for our integrated approach, rapid pre-market testing, focus on innovation, and ability to execute seamlessly across strategy, creative, production, and distribution. Through pre-market creative validation of Direct's newly designed pieces, we provided a data-driven foundation for the campaign, helping the client make more informed decisions before launch.

Our print and postal expertise then helped optimize costs and supported efficient and timely execution during a critical fall lending window. The insights generated from these mailings will help inform a larger program planned for the peak 2027 student loan application season. This new relationship demonstrates how Direct's integrated

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agency model and deep industry knowledge are helping Quad win new clients, expand our role beyond execution, and create opportunities for incremental print volume and long-term profitable growth.

Moving to slide 7, as marketers work to engage consumers across an increasingly fragmented media landscape, it's more important than ever to understand how different channels influence consumer behavior. Our latest Return of Touch research conducted with the Harris Poll reinforces a trend we've discussed before. Consumers continue to value physical shopping and brand experiences alongside digital interactions. In fact, 70% of Americans say seeing our brand shows up in physical space helps them understand it better and 71% say in-store experiences deepen their connection and loyalty to that brand.

Product packaging also plays an important role. 84% of Americans say they have greater trust in the brand when it pays attention to packaging details such as texture and finishing, and 55% say packaging has influenced the purchase decision. Through our capabilities in direct mail, packaging, retail displays and signage, and in-store media, Quad helps markers meet this consumer demand for physical brand interaction while connecting physical and digital channels to create a more effective and cohesive customer experience. For Quad, these insights help shape client strategies while reinforcing the relevance of our integrated MX platform.

On slide 8, our in-store brand activation services are increasingly leading to larger, more strategic client relationships. Brands are looking to enter retail or expand their in-store presence. Need a partner who can take an idea from concept to shelf quickly and at scale. By integrating design, production and distribution from the start, Quad helps clients move efficiently from concept to execution.

These services contributed to Quad's growth flywheel in two important ways. First, a successful display program builds trust and often leads to repeat business, additional retailers and larger programs. Second, as those relationships grow, clients often turn to quad for other marketing solutions, allowing us to capture an even larger share of their marketing spend. We've seen this pattern with growing brands such as LMNT, AG1 and Momentous. Each relationship began with a quick turn display project and expanded into additional services, including pre-market testing, packaging or direct mail.

FlavCity is a recent example of this strategy in action. As shown on slide 9, what we began as a single endcap display project earlier this year has expanded across five product lines in three major retailers, Target, Walmart and Meijer. As we've consistently delivered at scale and met each retailer's unique requirements, we've earned the clients confidence and expanded our relationship. Most recently, FlavCity selected Quad to manage its resale display and signage fulfillment business, and we're now growing into agency services with both Betty and Rise, supporting an upcoming product launch. FlavCity illustrates how we can turn a single project into a broader, multiservice relationship. It's a repeatable model that allows us to deepen client relationships, cross-sell additional solutions and generate revenue across more of our portfolio.

Turning to slide 10, we continue to make meaningful progress expanding In-Store Connect by Quad, our in-store retail media network. We are currently deploying the network across more than 100 additional stores, demonstrating strong retailer adoption and continued progress in building a scaled platform for CPG advertisers. Part of this momentum is driven by a large national discount store chain, which recently agreed to deploy In-Store Connect in initial 30 stores in Florida this winter. Screens will be placed in high traffic aisles featuring cereal, salty snacks and soft drinks, categories where CPG brands already advertise across our network. The new partnership establishes In-Store Connect's presence in the Southeast US and supports our strategy of building a valuable network for CPG advertisers and regional grocers.

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With thousands of stores nationwide, the retailer also represents a meaningful long-term expansion opportunity as we demonstrate value through the initial deployment. Another growth driver is our recently announced partnership with Chedraui USA, which will deploy In-Store Connect in 25 Smart & Final stores in California this fall. The agreement builds on our long-standing relationship with the client, providing print and production support for weekly circulars across its grocery banners.

Like the integrated support we highlighted with Wakefern last quarter, this example demonstrates how our connected retail solutions work together, allowing us to expand existing client relationships into broader, higher value marketing partnerships. Looking ahead, we remain focused on expanding our footprint, attracting more advertisers and deploying capital with discipline with the goal of growing In-Store Connect into a more meaningful contributor to Quad's long-term growth and revenue diversification strategy.

As we pursue growth and deliver client work, we continue to navigate a dynamic macro environment environment, as shown in slide 11. Ongoing conflict and geopolitical instability in the Middle East have contributed to supply chain volatility, particularly for certain petrochemical-based materials. We continue to proactively manage these pressures through disciplined operational execution, including diversifying our supplier base, optimizing inventory planning and implementing pricing actions where necessary.

Additionally, postage remains a significant challenge for many clients as it represents the single largest marketing expense for mailers. The US Postal Service implemented its most recent rate increase for market dominant mail in early Q3. As a reminder, the Postal Regulatory Commission issued a rule earlier this year limiting the Postal Service to one rate increase per year. The next rate increase impacting marketing mailers will occur in July of 2027.

As elevated postage costs persist, we continue to deploy the same two-pronged approach we have for decades, which focuses on maximizing postal cost savings while improving response rates. By connecting postal optimization with better targeting, creative and measurement, we help clients pursue a lower cost per acquisition and sustained effective investment in mail. Additionally, Quad's Postal Affairs team remains actively engaged with policymakers in Washington, the Postal Service and the Postal Regulatory Commission, working on behalf of our clients and supporting a healthy, sustainable mailing ecosystem.

Before I turn the call over to Tony, I'd like to recognize several recent industry honors shown on slide 12 which reflect the strength of our integrated marketing solutions and the outstanding work for our teams. Our Betty creative agency and Rise media agency earned a Silver Jay Chiat award at their work with Jelmar CLR brands recognizing the effectiveness of their brand transformation strategy. Rise was also named as an AdExchanger Award finalist for its work with Dairy Management Incorporated, highlighting its innovative approach to helping brands improve visibility in AI-powered search.

And last, Quad received the Path to Purchase Institute OmniShopper award for our endcap design that launched Pura's Smart Home fragrance products in Target nationwide. The use recognitions underscore our ability to help clients strengthen their brands, connect with consumers, and drive growth. Combined with the client success stories I mentioned earlier, these recognitions demonstrate how our growth offerings are gaining momentum and helping us mitigate organic print decline.

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

Anthony C. Staniak

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

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Thanks, Joel, and good morning, everyone. On slide 13, we show our diverse revenue mix. Net sales were $587 million in the third quarter of 2026, consistent with $588 million in the third quarter of 2025. Lower large scale print volumes and lower agency solutions sales were offset by higher logistics sales. Net sales were $1.7 billion in the first nine months of 2026, a 1% decline compared to the first nine months of 2025 when excluding a 1% 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 solution sales, partially offset by higher logistics and paper sales. Comparing our net sales breakdown between the first nine months 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.

Turning to slide 14, we show our progress on our revenue diversification strategy. Between 2018 and 2025, integrated solutions and targeted print increased as a portion of total net sales growing from 54% of net sales in 2018 to 69% of net sales in 2025. Our integrated solutions include agency offerings through our Rise media agency and Betty creative agency as well as our logistics and QuadMed services, while targeted print comprises catalogs, direct marketing, packaging, in-store signage and displays, and special interest publications. By 2028, we expect integrated solutions and targeted print will represent 76% of total net sales as we further diversify our revenue and clients into higher margin offerings through our flywheel approach, as discussed by Joel earlier on the call.

We will also continue to tightly manage organic declines in large scale print, specifically retail inserts and magazines, to drive free cash flow. Finally, for international print, we expect stable revenue contribution from our business in Latin America with growth in Mexico, which is a strategic extension of our US print platform, partially offset by the February 2025 divestiture of our European operations and the September 2026 closure of our Peruvian operations.

Slide 15 provides a snapshot of our third quarter 2026 and year-to-date financial results. Adjusted EBITDA was $51 million in the third quarter of 2026, as compared to $53 million in the third quarter of 2025. And adjusted EBITDA margin declined from 8.9% to 8.7%. The decrease in adjusted EBITDA margin in the third quarter was primarily due to the mix of net sales. On a year-to-date basis, adjusted EBITDA was $138 million in 2026 compared to $141 million in 2025, while adjusted EBITDA margin was consistent at 7.9%. The decrease in adjusted EBITDA on a year-to-date basis was primarily due to the impact of lower net sales as well as the mix of net sales, partially offset by lower selling general and administrative expenses from the benefit of efficiency initiatives.

Adjusted diluted earnings per share was $0.35 in the third quarter of 2026, as compared to $0.31 in the third quarter of 2025, an increase of $0.04 or 13%. Year-to-date, adjusted diluted earnings per share was $0.84 in 2026 compared to $0.65 in 2025, an increase of $0.19 or 29%. The increases are primarily due to higher adjusted net earnings, including lower interest expense due to reduced debt and lower depreciation and amortization and also benefited by share buybacks. Since 2022, we have repurchased 8.4 million Quad shares at an average price of $4.63 per share, representing 15.1% of our total outstanding common stock as of that time. This includes 1 million shares repurchased year-to-date for approximately $8 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 September 30, 2026, there were $61.1 million of authorized repurchase remaining under the program.

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Year-to-date free cash flow was negative $100 million in the nine months ended September 30, 2026 compared to negative $87 million in 2025. The decline in free cash flow was primarily due to an increase in working capital and the timing of payments, including a third quarter payment of $12 million to the Mexico tax authority and an increase of $1 million in capital expenditures in 2026. As mentioned on our second quarter earnings call, the company received an adverse income tax and value added tax litigation ruling related to a 2011 audit assessment of a Mexican subsidiary obtained through the World Color Press acquisition. As of September 30, 2026 (sic) [June 30, 2026], we had accrued $17 million as an estimate of the amount to be paid. During the third quarter, we reached a resolution with the Mexico tax authority that resulted in paying a lower amount of $12 million.

We show the seasonality of our free cash flow and net debt leverage on slide 16. As a reminder, 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, resulting in reduced net debt at the end of the year. For the remainder of 2026, we anticipate a similar seasonal pattern for our free cash flow and net debt. And we expect free cash flow in the fourth quarter to be in the range of $145 million to $155 million. When removing the impact of seasonality, we have reduced our net debt by $43 million or 9% from September 30, 2025 to September 30, 2026.

As previously reported, we divested our European operations to Capmont in February 2025. The total sales price included a three-year note receivable. As of September 30, 2026, we have not received payment of principal and interest for the first annual installment of the note receivable due February 2026 totaling approximately $6 million. Given the amount of time that has passed since February with our collection, we recorded a reserve of $11 million on the total note receivable in the third quarter.

Slide 17 presents our balanced capital allocation strategy, which is fueled by our free cash flow and our ability to generate proceeds from asset sales. On September 30, Quad sold its building in Lima, Peru after ceasing all operations in Peru on September 20. Equipment has also been sold and the clearing of the building will be complete by the end of the year. We received proceeds of over $17 million in the third quarter from selling the building and equipment. 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 investing to drive growth as a marketing experience company, maintain low debt balances, and return capital to shareholders through our quarterly dividend and share repurchases. 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 December 4. We are pleased to return capital to shareholders through the quarterly dividend and opportunistic share repurchases.

Slide 18 includes a summary of our debt capital structure. At the end of the third quarter, our debt had a blended interest rate of 6.6%. Our next significant debt maturity of $205 million is not due until October 2029. Given uncertainty regarding interest rates, we hold four interest rate swaps with notional value of $130 million and, as of September 30, one interest rate collar agreement with notional value of $75 million which matures at the end of October 2026. Including these interest rate derivatives, we have 48% of our interest rate exposure capped if interest rates rise, and with the interest rate collar, we would pay lower interest expense of 69% of our debt if interest rates decline. During October, we entered into two new interest rate collars with total notional value of $60 million to replace the maturing interest rate collar agreement.

We update our 2026 guidance as shown on slide 19 and are pleased that our guidance represents another step on our way to our 2028 outlook for revenue growth. For net sales, we are improving our guidance range. We now expect net sales to decline 1% to 3% compared to 2025 when excluding $23 million of 2025 net sales from the

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divestiture of our European operations. The 2% sales decline at the midpoint of our updated guidance, even with winding down operations in Peru in the third quarter, reflects an ongoing improvement trend from a 10% net sales decline from 2023 to 2024 to a 5% decrease from 2024 to 2025, excluding the European divestiture.

We are also narrowing adjusted EBITDA and free cash flow within our original guidance ranges. Full year 2026 adjusted EBITDA is now expected to be between $185 million and $195 million compared to previous guidance of $175 million to $215 million. Free cash flow is now expected to be between $45 million to $55 million as compared to our previous guidance of $40 million to $60 million despite the Mexico tax payment of $12 million. The midpoint of the free cash flow range is essentially equal to 2025 reported free cash flow of $51 million even with an additional week of payroll payments for a total of 53 Thursday weekly 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.

Capital expenditures are now expected to be approximately $55 million compared to previous guidance of $55 million to $65 million. This then supports what we believe is the industry's most technologically advanced platform, including investments in robotics and automation on the plant floor and in our postal optimization solutions. It also allows us to continue investing in growth in our targeted print platform such as the equipment for our new Salt Lake City packaging facility, as well as in our integrated solution services lines, including expansion of In-Store Connect by Quad.

From a net debt perspective, the net proceeds from the sale of assets in Peru exceeded the Mexico tax payment during the third quarter. With the resolution of these items, we reaffirm our year-end net debt leverage ratio is expected to be 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.

We're closely monitoring uncertainties in the macroeconomic environment, and we'll continue our disciplined approach to how we manage all aspects of our business, including treating all costs as variable, optimizing capacity realization, and maintaining strong labor management to mitigate the impact of rising costs on our business and our clients. These initiatives continue to fuel strong manufacturing operations and drive productivity gains.

Slide 20 includes a summary of our 2028 financial outlook and long-term 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 in 2024 and then reach an inflection point of net sales growth for full-year 2028 with a sales mix of higher targeted print, integrated solutions, multi-mail, and paper sales. In addition, during 2028, we expect to continue to expect to see increased adjusted EBITDA margin over our current margin.

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 and decreasing debt balances and lower restructuring payments. Finally, we expect to maintain our 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 and higher margin 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.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. The first question comes from Kevin Steinke with Barrington Research.

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

A

Morning, Kevin.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Hey, good morning, everyone. Good to see the momentum on the sales side. I wanted to start off by talking about that a little bit. You know, you really highlighted what you think is a repeatable model for expanding with clients. And you noted that they're increasingly using more of your services. So can you just talk a little bit about that model and how it works? I mean, if you're kind of out there actively discussing all your offerings with the client base, you know, maybe how it differs in a with a new client versus an existing client in terms of penetration or any more color on that, that model that seems to be working for you.

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

A

Yeah. I thought you were opening up with the momentum on the brewers, but we'll take that anyway. Yeah. So I refer to this as sort of a growth flywheel because when you look at our pie charts and you see Targeted Print large scale print and then Industry Solutions, they all kind of work together. So if you think about even in the large scale print area where we have the biggest decline, the decline is in the retail inserts which are very much used by every retailer out there but less and less so, so they end up demanding our services to help them manage away from it into other areas. And so that gives us a lot of interest in our solutions up and in the agency space to try and figure out how do you find audience when you're replacing channels.

And so they really work together. Once you get in that advisory role of finding audience and how you spend your money, what we're finding is it's driving significant targeted sales, targeted print sales. And so I'd like to remind people that when you sell a dollar up an agency, you're probably resulting oftentimes in $3 down in Targeted Print of revenue. And so, you know, you go from small invoice to large invoice, higher margin to slightly lower margin but great free cash flow. And so that's why I say, you know, as these parts of the pie kind of change in percentage, you have to remember that they're all interrelated in a big way. And it's okay that Targeted Print, you know, grows as a result. And I think when you see some of these wins we have, you know, it's literally, you know, get $1 million and win $10 million worth of Targeted Print, you know, not small numbers.

And I'd say that we've seen an acceleration of this working because, you know, marketers are under a lot of pressure. You know, the disruption continues to happen, AI being the newest, but they're still dealing with the constant push to try and figure out what the mix should be. And they have less resources to deal with. So this integrated approach is super important and super hard to pull off. And I'd say we have internal measurements that we use in terms of new sales. You know, we talk about total revenue in these calls, but the way we focus is when you have some declining revenue in some of the large scale print, we have to really outpace it with new sales.

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And we define new sales internally by new logos that we do business with and existing logos where they bring us a new line of revenue from a new product or service.

And so we're seeing an acceleration of both and it's working the way we like. And sometimes that means that, you know, your margin may be a little bit lower if you're having more success in driving Targeted Print. But we like that because it drives a lot of free cash flow. And so all in all, Kevin, this is what we've been talking about for a long time. And the fact that we've got the process so dialed in is really helping us see a lot of success in both segment share wins, but also in growth of existing clients.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

That sounds great. I wanted to ask, too, just a little bit about – the creation of Direct is kind of a – you know, the direct to marketing agency and kind of the thought process into formalizing that and, again, you know, the kind of the – I guess that ties into the – really the momentum you're seeing on the direct marketing side.

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

A

Yeah. I'd say it's no different than – you know, we talk about the overall flywheel of products and services. This is packaging up some of those agency solution stuff specifically for direct marketers. And so the difference here is that oftentimes, when you win direct mail, the product that direct marketers work and use, they're doing all the work. They're just serving you the list and you're winning the print part. Where we really excel is when we can actually advise them how to use the direct mail and very specific to this product line because it's got a lot of nuances to it versus other sort of media spends.

And so the Direct launch is really because it's what we've been doing but we've formalized it so that we're packaging up those products and services specific to the direct mail line or direct marketing line. And oftentimes, it's really, really focused on audience and how do you get our data stack and really do a lot of the pre-market testing to sort of advise them on what that direct mail product line will look like. When we do that, you know, you start a flywheel of sort of analytics because we do the pre-market testing, go ahead and do the physical piece, prove it out that it's got the responsiveness you want and then iterate and go again. So it continues to demand all the services through that sort of flywheel effect.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, great. Hey, I also wanted to ask about In-Store Connect and the new relationship you have with a national chain. You know, I think to this point, the new – the relationships have, you know, mostly been with kind of the, you know, smaller regional mid-market type chains. So what kind of got a national chain onboard and do you think there's opportunities to add more national-type chains in the future?

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

A

Yeah, there's a lot of playing out in this space because it's a new space really for marketers. And, you know, our approach was hit the mid-tier and the lower tier because the big ones like a Walmart, you know, are going to do it themselves and they're national. This one's a unique take on national brands. They have well over 1,000 stores, which is what's really important nationally. So what our network was is tying together a whole bunch of regional approaches to create a national opportunity for the CPG to define what audience they want to go through by hitting all those different regional stores.

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Now with the national player in place, we believe it'll help fill a lot of empty spots but also create a lot of momentum here. And in the competitive set in this space of people who are watching who may want to play in the same sort of category, we're seeing a lot of shakeout there. You know, one is kind of fumbled and they've kind of gone by the wayside. Another big thing that's going on is this acquisition of Instacart. Instacart was trying to push sort of in-store media with these carts that will – you put your product in, it's got a screen on it, it starts to measure and then it goes through checkout. Well, it looks like they may be discontinuing that whole approach.

So, you know, I think we've got a very good product here because it's very integrated with the analytics, the content creation and the screens. We're not just a screen. And so, you know, we're very excited about it. And again, you know, could we have done more than 30 stores for them? Yes. But remember, we're fronting the capital and we want to – we're very much about testing and learning and proving before we expand the capital on more stores. And so I think it's going to be a great relationship.

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

Excellent. Maybe just a couple questions just you related to the macro, some higher interest rates. Have you heard any hesitation among your clients due to, you know, some of that going on? And maybe, relatedly, Tony, just on the fuel surcharges, kind of how they've trended. Obviously, diesel is still quite high and, you know, kind of how they've been contributing here in the third quarter and into the second half.

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

Yeah, I'd say it's sort of the same thing everyone continues to talk about, which is the consumer keeps spending, but it's very bifurcated. You have the lower part of the economic stratification where they're really getting hit with inflationary costs, although they're still spending. So when we talk to our clients, I think that's just the concern is how does that play out and what kind of stability can we see going into 2027? So I think the world would love to have some stability, some stabilization and inflation, stabilization of just about everything that creates consumer confidence. But as we talk to our clients, we haven't seen, you know, sort of a big pullback because of those concerns. If anything, I think people are still investing in the brand.

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

And then, Kevin, on your – on the second part of your question on fuel surcharges, we have continued to have fuel surcharges in the third quarter as well as, you know, here in the fourth quarter. We have, you know, automatic provisions in our contracts that adjust the pricing that we bill fuel at based on where diesel rates are.

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

And that's weekly, so we get protected pretty well.

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

Yes. So we're, you know, covering those, you know, cost increases. It does have a dilutive impact on our margin that we're seeing in the services offering, but, you know, pleased to maintain the EBITDA dollars.

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Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay. That's helpful. I appreciate it. I'll turn it over for now. Thanks for taking the questions.

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

A

Thanks, Kevin.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Thanks, Kevin.

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

A

Operator?

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

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

A

Good morning, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Good morning. Thanks for taking the questions. I guess a couple of things I'm kind of curious about. One is, you know, in terms of the updates to your guidance, you know, taking up the lower end of the revenue guide and the EBITDA range kind of being narrowed and the EBITDA kind of impact this quarter you described to be partly attributable to revenue mix. Could you just give us a little bit more clarity on how much of an impact pass-through revenues are having on both your guidance and what kind of impact they had on EBITDA that we saw in the quarter? And kind of flesh it out a bit would be helpful.

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

A

Yeah. So I think one thing to start with is, you know, we continue – one of our strategies is to get more control of the supply chain as it relates to paper. You know, as the industries changed and paper mills have adjusted, supplying more paper is important to us, but it's, you know, largely pass-through. We do get paid for the services, but it's, you know, the dollar amount. It helps us better manage the supply chain because we manage those inventories much tighter than clients supply paper and allows us to really work with the mills to manage their capacity, which is good for our industry. Tony.

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

A

Yeah, I'd say – so, you know, just following up to that, so the paper sales, we've seen increases in paper sales in 2026 that runs at a lower margin profile than what the print does. In addition, the fuel surcharges and the ink surcharge, we put in a temporary ink surcharge back in April just to cover those costs, right? So we've seen, you

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know, dilution in our EBITDA margin due to that. And we continue to focus on how we're, you know, growing top line looking forward in those areas and print as well.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. I mean, is there any rough ballpark of how much of the revenue is pass-through this year versus kind of the year ago?

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

A

Yeah, I think you can you know attribute the majority of the 1% improve in the guide to that. And on the EBITDA side that you asked about, $5 million decrease in EBITDA, that is partially the Peru divestiture, right? We announced that earlier in the year and we started to reduce our sales there accordingly as we phased out, and then the rest, you know, due to these factors we've been talking about with pass-through.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Right, thank you for that. Now also, you mentioned, Tony, a lot of puts and takes around cash inflows, outflows. Just want to make sure I understand what's in the end of quarter balance sheet [indiscernible] (00:47:39) between the taxing in Mexico; the Lima, Peru sale; you know, Capmont writing off the receivable. How much is that – is in the financial statements that we saw at the end of the quarter?

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

A

Yeah. So for Peru, we've sold the building and equipment for over $17 million. That was all collected in the quarter. So that's all in the financials. And we are cleaning out the building for the rest of the year. But from a financial standpoint, on the sale of the building and equipment, that is going to be the extent of the proceeds. In Peru, we are still collecting receivables that will benefit, you know, free cash flow in the fourth quarter.

From a Mexico standpoint, we have reached resolution on that tax matter. We've paid the $12 million and that is all in our third quarter numbers. The reversal of the extra reserve we set, we settled it at $5 million better than what we had reserved. That is, come back through our results in, you know, outside of adjusted EBITDA between tax line, interest line, restructuring. And then lastly, on Capmont, that continues to remain on our balance sheet. It's a note receivable. We did, as disclosed in my prepared remarks, record a reserve of $11 million against that given the amount of time that has passed without collection. We received very small payments in the third quarter, but for the most part, it all exists still on the balance sheet, you know, at the end of September.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then I was curious about In-Store Connect, the – you know, you guys talked about 100 stores in process, and I think that's a meaningful uptick from the footprint that you had – that you've disclosed before but I want to make sure I understand the magnitude. I think you had previously, like last quarter, suggested something like 60 stores up and running and maybe 130 planned, so that would have been maybe 70 in process so maybe that's a 30 increase or so in the in process. That's one question. And then the other question is, you know, do you still think that around an 800 store footprint is really the North Star in terms of getting a large enough footprint to be very meaningful in kind of market or budget allocation?

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

A

Hey, Barton, I'll start with that one. From a store standpoint, with the, you know, 100 stores that we talked about in the call, that would bring us in total to near 160 stores that we would have for In-Store Connect at that point. So you are right in saying that last quarter, we were 130 and now we've added some more, the national discount retailer that we talked about, you know, on our way to near 160 stores by the end of – near the end of the year.

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

A

I think as it pertains to the 800 stores, you know, we've used that number to compare what an audience size would look like. I think we're still testing what the number is to be meaningful. And so I think it'll be earlier than that. You know, what we're learning, too, is it depends by retailer, you know, what they're set up for in terms of selling the inventory in partnership with us because it's partly us, it's partly them. In one of the new set of stores, we had a – one of the early ones that's coming up where we've come close to selling out the inventory, and that's because I think the approach that the customer took was a great one. And I think that as the whole space continues to understand the measurability of this, which, by the way, we continue to show it works by not just selling the advertising, but showing that the advertising increases the, you know, the cart size, selling more products or selling new products both for the CPG and retailer, I think you'll start to see sort of a flywheel effect there.

And again, I think, you know, trying to measure what the right number is also depends on that national footprint and how that sort of evolves here because you want to get into those where in a lot of cases we're in the regional budgets for those CPGs. We want to get in that national budget, too, where they can kind of define what that audience looks like nationally because they're managed separately. And so I think, you know, we're still testing that, but I think 800 will clearly be a great milestone. But my belief is that the momentum will happen earlier than that.

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

A

Okay. All right. That's helpful. Thank you, guys, very much.

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

A

You're welcome.

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

A

Thanks. Barton.

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

A

Operator?

Operator: The next question comes from Mark Zgutowicz with StoneX.

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

A

Morning, Mark.

Mark Zgutowicz
Analyst, StoneX

Q

Good morning, guys. Very positive commentary surrounding your agency business and congrats on the latest accolades there. Curious though why that's not helping on the adjusted EBITDA growth side of the equation. Perhaps there's maybe some overshadowed there by the pass-throughs that you just talked about. And then I also noticed that you reduced your 2028 mix of your agency and logistics business roughly 6% to 25%. Just hoping you could maybe discuss those two agency dynamics separately. Thanks.

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

A

Yeah. Again, I think it's go back to the flywheel effect of how this thing works where we're getting the higher margin, lower invoice size business, which puts us in the advisory role, which then leads to the lower margin, higher invoice size print side of the world. And so that's a part of it. And then also, as Tony said, some of the mix of the pass-through, you know, when you take out paper sales, that's a big number. Paper is the second largest budget item for our customers outside of postage. We're actually number three. And so when you take that revenue and get paid for it at a lower margin, it has an impact. But you'll continue to see – again, we're seeing the momentum of the pickup of the flywheel effect of the relationship between agency and Targeted Print. Tony, anything to add?

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

A

Yeah, I'll just say from when we updated the numbers, Mark, you know, we originally in our November 2024 Investor Day published the numbers that you first noticed with the 31% of Integrated Solutions. We felt as we get closer to 2028, it was time to do a comprehensive refresh. And that's what we did and included in our earnings call at this time.

Mark Zgutowicz
Analyst, StoneX

Q

Okay. So at the 25% level, is that – what does that imply in terms of 2027 and 2028 EBITDA margins? Are you still – at that level do you still think you can see margin expansion at least into 2028?

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

A

Yeah, I think we still remain on track for that. You know, I would remind that we target not – we like to say not all print is necessarily created equal. Targeted Print runs at a higher margin profile than the large scale print. So as the agency is in turn driving more Targeted Print, that will come in at a higher EBITDA margin than what the large scale print does, so we would still expect EBITDA margin accretion, you know, going forward.

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

A

And I'd also speak to the strength of the print product lines. I mean the way that our manufacturing team manages this platform is nothing short of astounding. I guess if I would have told you how they're managing variable cost,

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making all costs variable in a traditionally heavily fixed cost platform, what they're able to do today versus only a year ago is pretty amazing. We've literally been able to increase the variability of our labor costs, which is the biggest cost, to a point I've never seen.

And that's important because while it's a very seasonal business, second half strong, the peaks and the valleys have become almost weekly because of just the environment of how marketing has changed to become very instantaneous. And so they're managing peaks and valleys within weeks now, and they've done just an unbelievable job of managing the variability of those costs and making the variable through those peaks and valleys. And so that makes me feel good about continued strong performance in margin in the print side.

Mark Zgutowicz
Analyst, StoneX

Q

Yeah, I saw – I heard and saw that, Joel, tangibly on my – on the campus tours, so I get that. And the last question I have is just on the in-store. The 30 that you're sort of subsidizing now and testing, how long do you think that takes for you to see returns and whether you reinvest there? And if you maybe compare that to others that you've tested, you know, what's the timetable to get there?

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

A

I think we're still exploring the timetable and it's a sort of customer-by-customer event. And we're not really – we don't think they're subsidizing. We're making the upfront investment capital-wise to make it easy for customers to put these screens in it, and it's on the media space but we get paid back by – as we sell the media itself. And so – which is a split depending on the involvement of the customer. Again, I think it's a new media channel that people are learning how to adopt. And so I think as we go forward, we've been making good deals to get people into the fray. But quite frankly, as more volume comes, we can see the CPMs go up as you start to fill up these programs. And like I said, we're seeing it differently in different pockets depending on the customer with a very new customer suddenly having great success with filling up the volume early on while others are starting to get that flywheel going.

Again, you're sort of in this game of you have to have the eyeballs to get the programs going on a larger scale, and you get on a larger scale if you have the eyeballs. So it's which comes first, the chicken or the egg? So we're in that phase of trying to prove out does it work and do people see the adoption? And I think we're in that phase where people get it, this is here to stay, and now it's a matter of continuing to prove out the measurement of it and push forward with more stores.

Remember, our first customer on the West Coast, which, you know, we're well into for a while, is already going on to the next phase of doubling the number of stores. And so that's the trick. When they start adding more stores, they're doing it because it works.

Mark Zgutowicz
Analyst, StoneX

Q

And how long did that take, just to close on that, before they started expanding maybe as a precedent on the phase one?

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

A

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Yeah, that one was – again, I'd say the early adopters took longer. It's about 18 months for that one, but I see now that some of the newer ones are already talking about expansion in a much shorter time range. And so we're talking, you know, call it, at least half the time if not less. And so, again, we'll continue to monitor it. It's still early days, but that decision timeframe is coming rapidly down.

Mark Zgutowicz
Analyst, StoneX

Q

Got it. It sounds great. Thanks, guys.

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

A

All right. Thank you. Operator?

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.

Okay. Thank you, everyone, for joining today. I am proud of the progress we're making across Quad. We continue to expand our higher value marketing capabilities and deliver a broader range of integrated solutions for existing clients. This deepens the relationships which helps us earn repeat business and grow our share of clients marketing spend. We continue to improve our revenue trajectory, and with expected strong cash flow generation and a healthy balance sheet, we plan to continue investing for growth while creating long-term value for shareholders. Thank you for your continued interest in Quad and I look forward to updating you on our progress next quarter. And finally, go Brewers.

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

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