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Quad/Graphics, Inc. (QUAD)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Quad's Third Quarter 2024 Conference Call. During today's call, all participants will be in listen-only mode. [Operator Instructions] A slide presentation accompanies today's webcast and participants are invited to follow along advancing the slides themselves. To access the webcast, follow the instructions posted in the earnings release. Alternatively, you can access the slide presentation on the Investors section of Quad's website under the Events and Presentations link. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I will now turn the conference over to Katie Krebsbach, Quad's Investor Relations Manager. Katie, please go ahead.

Katie Krebsbach
Manager-Investor Relations, Quad/Graphics, Inc.

Thank you, operator, and good morning, everyone. With me today are Joel Quadracci, Quad's Chairman, President and Chief Executive Officer; and Tony Staniak, Quad's Chief Financial Officer. Joel will lead today's call with a business update and Tony will follow with a summary of Quad's third quarter and year-to-date 2024 financial results followed by Q&A.

I would like to remind everyone that this call is being webcast and forward-looking statements are subject to Safe Harbor provisions as outlined in our quarterly news release and in today's slide presentation on slide 2.

Quad's financial results are prepared in accordance with generally accepted accounting principles. However, this presentation also contains non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted diluted earnings per share, free cash flow, net debt and debt leverage ratio. We have included in the slide presentation reconciliations of these non-GAAP financial measures to GAAP financial measures. Finally, a replay of the call will be available on the Investors section of quad.com shortly after our call concludes today.

I will now hand over the call to Joel.

Joel Quadracci

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

Thank you, Katie, and good morning, everyone. Our third quarter results were in line with our expectations. Third quarter net sales declined versus prior year due to lower paper and agency solution sales. However, we achieved improvements in both adjusted EBITDA and adjusted EBITDA margin with adjusted EBITDA margin increasing by 54 basis points to 8.7%. We also continued to be a strong cash generator using these funds to pay down debt, strengthen our balance sheet and return capital to shareholders through a quarterly dividend. Despite full year 2024 net sales trending toward the higher end of decline in our guidance range, we are maintaining the midpoints of our guidance for adjusted EBITDA and free cash flow. We are also reducing anticipated year-end net debt leverage from approximately 1.8 times to 1.5 times, pending the sale of the majority of our European operations by year-end.

As announced last week, we entered into a definitive agreement with Capmont, a Germany-based private capital investment management firm, to sell our European print operations for an enterprise value of approximately $45 million, operations that represent just 5% of our total net sales. This proposed sale supports Quad's ongoing strategic focus to optimize our business portfolio for growth as a marketing experience or MX company. We will continue to maintain state-of-the-art print operations in locations that support our MX offering, including the Americas with North America comprising our largest base of operations. The transaction is expected to close by the end of the year pending customary regulatory clearances and other closing conditions.

As a company founded on creating a better way, we continue to use every tool at our disposal to improve the marketer's experience. Our solution suite shown on slide 3 helps brands enhance their marketing experience by removing friction wherever it appears across the marketing journey from creative production in media to everywhere in between. Supported by state-of-the-art technology and data-driven intelligence, our solutions are scalable and flexible, operating together to provide clients with integrated service excellence.

Our focus as an MX company includes accelerating our position in market value, leveraging ingenuity and innovation, relentlessly solving marketers' biggest challenges across industries, and building on our strong culture as an MX company. On slide 4, we are excited to share the momentum behind the In-Store Connect by Quad, our in-store retail media network solution that elevates the shopping experience by bringing the best elements of digital commerce into physical store environments.

During the quarter, The Save Mart Companies, the largest private regional grocer on the West Coast, activated our solution in 15 stores, and then initial results are promising with participating brands all registering a positive sales lift. Tamara Pattison, Chief Digital Officer at the Save Mart Companies, echoed our enthusiasm for our solution saying what was most compelling to us was the capabilities around targeting, around activation and around analytics that came with the solution. We are really excited by what we're seeing not only from an in-store activation perspective, but from the excitement with the supplier community. As we rolled out the initial testing phase of 15 stores, we haven't been disappointed. We are excited for the future.

In addition, The Save Mart Companies – to The Save Mart Companies, two other large regional grocery chains, including Oklahoma-based Homeland Stores, are in the process of testing our In-Store Connection solution and through which we expect to have activations at approximately 30 more stores by year-end. Momentum is building not only with supermarket chains, but department stores, home improvement stores and convenience stores too.

Moving on to slide 5. I'm proud to share how we are continuing to enhance our media intelligence solutions through the power of our proprietary household-based data stack. Comprised of more than 3 billion data points that are revalidated weekly, our data stack represents more than 20,000 attributes from approximately 97% of the adult US population. We are leveraging this robust data set to power our audience-targeting solutions and helps clients optimize customer acquisition efforts and creating engaging content for their existing customers.

In September, we announced our next step in monetizing our data stack through an exciting partnership with Google Cloud. By leveraging Google Cloud's artificial intelligence optimization capabilities and large language models, we are creating new AI-driven solutions that tap into our data and seamlessly connect it with clients' creative and media. In addition to streamlining access to Quad's audience-targeting capabilities, these combined solutions will provide highly personalized content at scale across multiple marketing channels via image generation, content creation, layout design, translation, and more. We plan to roll out our new AI-driven offerings in the coming months.

Next, I'd like to spotlight two client examples that showcase the measurable benefits of our MX solution suite. Advancing to slide 6, Nicklaus Children's Hospital, a nationally ranked children's healthcare system in Miami, partnered with our Rise media agency to revise its marketing strategy. The focus of our work was to maintain reach while adhering to new guidelines for healthcare marketers related to heightened privacy regulations. With our help, the hospital implemented a refreshed campaign strategy that ensured compliance while increasing engagement. Our work included a complete creative refresh to its various ad formats, including increased usage of video content, a refined paid media strategy that enhanced ad relevancy and increased web traffic, and an updated SEO strategy that improved the hospital's metadata and identified and addressed content gaps. These integrated efforts led to a 93% higher click-through rate and a 375% higher engagement in paid social media ads year-over-year and 68% growth in website traffic. The client is extremely pleased with these results from our ongoing partnership and we look forward to supporting continued growth for this client as its media agency of record.

On slide 7, we show our work for Consolidated Communications, a billion-dollar broadband and business communications provider serving customers across more than 20 states. Through a multi-channel direct marketing campaign, we helped enhance customer acquisition efforts in new regions covered by Fidium Fiber, the client's rapidly expanding consumer broadband service. Specifically, we applied our proprietary household-based data stack and advanced analytics to identify and reach high-potential audience targets, designed and optimized creative content for both online and offline channels, and designed a printed direct mail to drive online conversions with Flowcode technology. The campaign combines the power of digital and print by supplementing mail pieces with targeted social media and website ads, as well as re-marketing web-based consumer leads with personalized mailings. The results of the campaign included high engagement and email open rates, reinforcing the value of well-conceived and connected multi-channel marketing campaigns.

Before I turn the call over to Tony, I would like to take a moment to thank our employees during our seasonally busiest time of the year for the continued hard work and commitment to providing the highest levels of service for each of our clients. I'm proud of our team and our future as an MX company.

And with that, I will now turn the call over to Tony for the financial review.

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

Thanks, Joel, and good morning, everyone. On slide 8, we show our diverse revenue mix. Net sales were $675 million in the third quarter of 2024, a decline of 4% compared to the same period in 2023, primarily due to lower paper and agency solution sales, including the loss of a large grocery client. On a year-to-date basis, net sales were $2 billion in 2024, a 9% decline compared to 2023, primarily due to lower paper sales and lower print volumes, including the impact from client mix and increased [ph] reviewer (00:16:31) volume that has a lower unit price with a higher profit margin as well as lower agency solution sales.

During the first nine months of 2024, magazines and catalogs increased as a portion of our net sales mix by 2% compared to the previous year due to recent segment share wins such as [ph] AARP (00:16:51), while retail inserts decreased 2%.

Slide 9 provides a snapshot of our third quarter 2024 financial results. Adjusted EBITDA was $59 million in the third quarter of 2024, as compared to $57 million in the third quarter of 2023. And adjusted EBITDA margin increased 54 basis points from 8.2% to 8.7%. On a year-to-date basis, adjusted EBITDA was $161 million in 2024 compared to $168 million in 2023. And adjusted EBITDA margin increased 48 basis points from 7.7% in the first nine months of 2023 to 8.2% in the first nine months of 2024. The margin increase in both periods was primarily due to benefits from improved manufacturing productivity and savings from cost reduction initiatives. During the first half of 2024, we completed previously announced restructuring actions, including plant closures and labor reductions that we expect will generate $60 million of cost savings this year.

Adjusted diluted earnings per share was $0.26 in the third quarter of 2024, as compared to $0.11 in the third quarter of 2023. Year-to-date adjusted diluted earnings per share was $0.49 in 2024, compared to $0.28 in 2023. The increase in both periods was primarily due to higher adjusted net earnings and the beneficial impact of a lower share count due to stock buybacks. Since the second quarter of 2022, we have repurchased approximately 11% of our total outstanding common stock. 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, 2024, there was $77.5 million of authorized repurchases remaining under this program.

Free cash flow was negative $92 million in the first nine months of 2024, as compared to negative $18 million in the first nine months of 2023. This change was primarily due to non-recurring cash flow benefits realized in 2023 from reducing inventories enabled by an improved supply chain environment.

As we have previously shared, we will continue to generate proceeds from asset sales in addition to our strong free cash flow, as shown on slide 10. During the five-year period from 2020 to 2024, we now expect to generate over $830 million of free cash flow and proceeds from asset sales. These asset sales include divestitures of certain non-core portions of our business, such as the expected year-end sale of the majority of our European operations for an enterprise value of approximately $45 million, as well as sales of property, plant and equipment from closed facilities.

In September, we completed the sale of our former Saratoga Springs, New York, 1 million square foot manufacturing facility for net cash proceeds of $41 million. And last week, we announced the closure of our Waukee, Iowa directory manufacturing facility. We expect to generate further cash proceeds in 2025 from the sale of the Waukee building and three additional owned facilities we closed earlier in 2024.

We show the seasonality of our free cash flow and debt leverage on slide 11. Due to the seasonality of our business, we typically generate negative free cash flow in the first nine months of the year, followed by large positive free cash flow in the fourth quarter. Our seasonal production peak occurs in the late third quarter and early fourth quarter of the year due to the timing of holiday-related advertising and promotions. This leads to inventory build prior to that time and then results in higher collections from clients in the fourth quarter. In 2024, we continue to anticipate a similar – a similar seasonal pattern more comparable to 2022 when we generated

$174 million of free cash flow in the fourth quarter. We believe we are on track to generate $142 million to $162 million of free cash flow in the fourth quarter of this year to meet our full year 2024 free cash flow guidance of $50 million to $70 million, and we plan to achieve net debt leverage of approximately 1.5 times with net debt of $330 million pending the completion of the European divestiture.

Slide 12 includes a summary of our debt capital structure. At the end of the third quarter of 2024, our net debt was $490 million, reduced $94 million from $584 million one year ago at September 30, 2023. We have focused on debt reduction over the past five years and by this year-end we anticipate reducing debt by over $700 million since January 1, 2020. Including interest rate derivatives, our debt at the end of the third quarter was 57% floating and 43% fixed, with a blended interest rate of 7.8% and our total available liquidity, including cash on hand, was $196 million. We are pleased with the October extension of our $690 million term loan A and revolving credit agreement and the ongoing long-term support and partnership with our premier bank group.

Our next significant maturity is now $193 million due in October 2029. We will continue to focus on debt reduction with our capital allocation. This debt extension also provides us with additional financial flexibility to focus on the growth and development of our offerings as a marketing experience company, while also returning capital to our shareholders.

We share our updated 2024 guidance as shown on slide 13. Consistent with what we communicated in the second quarter earnings call, our annual net sales are trending toward the higher end of decline in our guidance range, and we expect a decline of approximately 9% compared to the original guidance of annual net sales declining 5% to 9%. With our flexible model, higher labor productivity and focus on disciplined cost management, we are maintaining the midpoints of adjusted EBITDA guidance at $225 million and free cash flow guidance of $60 million. Free cash flow includes $65 million of capital expenditures to further accelerate our offerings.

And finally, as previously mentioned, enabled by our strong cash generation, we now expect debt leverage to improve to approximately 1.5 times by the end of 2024, which is reduced from our original guidance of 1.8 times and is also below our targeted long-term debt leverage range of 1.75 times to 2.25 times.

Slide 14 includes our key investment highlights as we continue to build on our momentum as a marketing experience company. We believe that Quad is a compelling long-term investment and we remain focused on growing net sales and driving higher profitability through continued diversification of our revenue and clients. With our expanded offerings such as In-store Connect and our proprietary household-based data stack discussed earlier, there is a significant addressable revenue opportunity with both our large base of existing clients as well as new clients.

In addition, our strong cash generation will continue to fuel our capital allocation priorities. These include investing and scaling our offerings, further reducing debt and returning capital to shareholders through our next quarterly dividend of $0.05 payable on December 6. We also expect to continue to be opportunistic in terms of our future share repurchases. We look forward to sharing a more comprehensive update on our strategy and growth opportunities at our upcoming Investor Day on November 20 in New York City.

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

QUESTION AND ANSWER SECTION

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

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

Good morning, Kevin.

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

Thanks.

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

Good morning, Kevin.

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

Good morning. Great. Well, I wanted to start off by asking about the partnership with Google. It looks like a really exciting and intriguing announcement. Just I know you said you're going to be rolling that out in the coming months, but any – if you gathered any initial feedback or initial reaction from your client base and how they see this benefiting them?

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

Yeah. I mean, I think one of the biggest challenges in marketing today is in finding good audience. And the other big challenge once you find good audience is actually having the content follow the messaging in a variable sort of way. Now, the old days of sort of shock and blast everybody with the same message in the same content doesn't work so well. So, the world expects to be more personalized. And so by adding the AI element to our very large data stack, and I'll remind you that the data stack consists of all the household personalities in the country, because of our existence as a printing company, we do all the work for the post office. It's almost 10% of the volume of the post office of marketing mail. So, we're going to every mailbox across the country with content and we know what content is going in. That's what creates the personality knowledge of the household.

So, once you have that, it's sort of digging through that huge data stack to find out for the marketer what is the specific set of that data that works for us. And that's where AI comes into play to help us sift through that, as opposed to using a team of data scientists. Now, once we get that audience through AI, we use AI to actually auto generate content. That's both in sort of text as well as is actual visual content. Because if you think about a customer for call it horticultural products, you may have different passions by each customer. One may be much more tactical on how they like to garden. Therefore, you want something that's more specific to them to hit them with content versus the person who just wants things to look nice and not have to put in a lot of work. And so you can literally vary the type of content that goes with this specific audience you follow.

And so it's a huge deal because it really helps solve a problem that most of our marketing customers are doing today. And the response so far is people are anxious to jump on and start testing the content and the data.

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

That sounds great. I was wondering with this new tool in your – in your back pocket here, if you feel like this is something you can go out to the market as a differentiator to market yourself and win new business.

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

Yeah. Yeah, absolutely. And we've been working on this for a while and so it's all coming together. And we're combining it with our media offering and analytics offering. And we'll also remind people that our approach is to be completely transparent in what we're spending of your media dollars. That is not always the case out there. And there's a lot of murkiness as to am I spending the right dollars on the right audience? And so we believe that the hunger is there not only for the transparency, but also the specificity of the type of audience that we can attract and go after for our clients.

And then again, allowing content to follow along with it. It's very difficult for content to match your efforts on your audience when you start breaking down into a significant number of different types of passions that people might have. And so, yeah, I believe this will be a very large differentiator for us.

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

Excellent. I wanted to follow-up by asking about the reduction in your year-end leverage ratio target. Is that, as I understand it, being specifically driven by the European operations sale?

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

It's a combination of – because we – well, we've had a very busy quarter as you know. We not only increased the margin that we have, but the divestitures of not just Poland, but also our very large high-quality asset in Saratoga Springs to what we believe is a very good owner in terms of further communities. So, it's a combination of all of that.

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

Okay. And so as you think about the targeted leverage ratio range you expect to come in below that at year-end 2024, do you stick – are you sticking with the same target leverage range or is there something maybe you think about revising in the future?

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

Kevin, we look – we look at that every year, once a year and release that with our February earnings call, with the next earnings call. So, we'll come back to you at that point. But we're going to continue to have a commitment to keeping debt low going forward. And we're happy with the low leverage. I think it gives us dry powder to continue to expand our offerings.

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

A

Yeah, kind of basic questions of uses of capital. And look, I love what we've done with our balance sheet because it really gives us optionality, whether that's – whether or not we return [indiscernible] (00:31:03) capital to shareholders through the dividend or through repurchases that we've done in the past. We'll continue to be opportunistic there, but also in terms of enhancing our capabilities. So, having that lower leverage range is great, but we always say that we may ebb and flow from that depending on the opportunities out there.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Yeah, that makes sense. Certainly, it gives you more options on capital allocation. So, that's great. And just when I – when I think about the – again you talked about it last quarter, but the sales is trending to more like the 9% decline for the full year. I assume the European sale is not factored into that or is it or how should – I know you said year-end 2024 for the sale of [ph] that edges (00:31:54) that's potentially before year-end and if that could affect the outlook for sales for the full year.

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

A

Yeah. With the – with the regulatory clearances and other customary conditions, we won't close the sale until in December at some point, right. So, it won't have a significant impact on the guidance if it closes let's say like December 15 or something like that, right. So, you should look at the minus 9% consistent with what we said in the second quarter call with how our sales were playing out over the year. And keep in mind, we talk about the loss of the large grocery client and that's 3% of that – of that amount. So, the second half is kind of playing out as we expected.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay. That sounds good. I wanted to also just when you talk about the sales outlook, maybe just give an update on what you're seeing from your clients in terms of how they're reacting to higher postal rates, interest rates, are they getting a little bit more confident about interest rates coming down and maybe a little bit more comfortable with the economic outlook? I know I hit on a lot of areas there, but just trying to get a sense of the general tone of business with regard to some of those macro factors.

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

A

Yeah, I think – look, the postal increase that we experienced in the last several years is huge. And no doubt that continues to kind of have some impact this year, even though as I've said in the past, at least the increases this year the customers knew about. Last year, I'll remind you that the big increase that happened in July was quite a surprise, post everybody's budgeting process. That being said they're going to hold off on doing what was an expected increase after the first of the year. That's great news. The challenge is- is that they still plan on doing a increase in the second half of the year.

Good news there is that people are planning for it. Bad news is it's a cumulative effect on volumes over the past three years, continues to have some impact. And some of that is in that 9%. We hope people will start to build back volumes as they see improvement with the consumer.

From an interest rate standpoint and we don't necessarily see that direct correlation or hear that from our customers other than we saw sort of in the CPG space some softness. And what I'm hearing from CPGs is if you're at the lower end of the economic sort of ladder, that whole group has really been hit hard for the hardest. And they've seen some pullback in spend on higher-end items and really pivoting towards the need to have. While maybe the middle tier and the higher tiers are still spending quite well. So, I think how that plays out is a little bit we've obviously got a big election coming and we'll see what – what comes after that. But right now I think that it's a little bit of not a one size fits all when we talk to our customers. It's a little bit across every spectrum with sort of a I don't know, maybe a little bit negative to neutral in our view.

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

Okay. Thanks for the update there. Just lastly, I wanted to ask about what you're seeing in Mexico, Latin America, trends there in terms of business and kind of that – you just continue to view that as a core part of your portfolio in the Americas.

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

Yeah. So, yeah, I'll start with our Mexico operations. That's a natural extension of our US print platform. We export quite a bit of volume out of Mexico into the United States and had a particularly strong third quarter in Mexico this quarter. So, we remain bullish about the opportunity. And Colombia and Peru as well can serve as extensions as we go across all of South America. Sorry, as Joel said in the prepared comments, we're a marketing experience company across the Americas.

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

Okay. Thanks for all the good commentary. I will turn it over. Thanks.

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

Thanks, Kevin. Operator?

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

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

Good morning, Barton.

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

Hi, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

Good morning, guys. Thanks for taking the question. I – just I guess a little bit about the numbers here to make sure I understand. So, implicit, I think in your 9% full year guide, if I'm doing the math right, would be about an 8% decline in the fourth quarter. Is that right? And why would it be a little bit more pressured than the third quarter? Is that maybe just the mix from the grocery client you lost or is there something else going on? So, that's one question.

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

A

I think, I think – so, yeah, for first off, your first part on fourth quarter, yeah, 8% to 9% decline in the fourth quarter to get us to that approximately 9% for the year. And you will see ebb and flow depending on how volumes come out in particular retail inserts. We saw let, for instance, in the third quarter, July of 2023 was a pretty low quarter for us. So, we had a favorable comparable there in 2024. And that can happen on a monthly basis going forward. So again we're seeing – we're consistent with the negative 9% we gave for the year starting late last quarter that we talked about.

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

A

Yeah. And I probably add that if there was a soft spot would be maybe from that in the previous questions that we answered in the CPG space impacting a little bit more on packaging in the quarter. So, there's a little bit of that going on.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Now, in terms of the sale of the majority of your European operations, is there any bigger than a breadbasket sizing you can give us for like the cash flow impact of that? I think you guys have reported like Europe overall is about 5% of revenues and I assume that's a majority. But if you could give us a little bit more color on that would be great.

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

A

Yeah. Yeah, I can – I can talk to some of that. So first, the wording on the majority of the European operations. So, we have a very important shared services center in Poland, 400-people strong that supports our US admin operations as well as our clients. And we're retaining that going forward. Right. So, it is – that stays with us. Then, the revenue-generating operations, the 5% that you saw in the pie chart, that is what we are selling to Capmont as part of the transaction. So, again 5% of revenue. And think part of a – typical print EBITDA multiple on that $45 million enterprise value and you can kind of get to the approximate EBITDA range. And then when you think about that our debt leverage ratio is half of the EBITDA multiple, you can see how this is nicely deleveraging for us as we put these proceeds towards debt reduction.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. So, I'm sorry, you said the leverage range is half of the EBITDA. Did I hear you correctly, what you just said?

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

A

You did. Yeah. So, our leverage ratio, as you see are 2.16x, right around there. And that's half of roughly what typical print multiples are.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. And in terms of the outlook for the start of next year, you're slowing down here in the fourth quarter. You've got a postage hiatus, but the cumulative impacts of CPG weakening. Any early sense? I mean do things feel any better at the start of next year? Is it too early to say? Any comments about the revenue trajectory for next year that you can give us?

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

A

Yeah. I'd say it's probably too early to say because our clients are still on the busy season here and so they're entering into the planning segment. And so we get some early reads, but not much. It usually starts playing out as we get closer to the end of the year.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And you guys have called out I think asset sales booked so far of $113.7 million. I think your statement of cash flow shows proceeds from asset sales of like $46 million. And I know Europe's to come, is probably in there, but there's probably a little bit more in there. Could you give us a sense of what else is in that number?

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

A

Yeah.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

And also since I know you've got some other assets that are on the block, could there be some other things that flow in there, increments to that number this year? Or is it all kind of pushed to next year?

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

A

So for the – for the cash flow statement, there's a couple of line items on there that roll up into our total proceeds. You picked up the asset sales in the $40 millions, which is primarily the Saratoga sale that hit in the third quarter, Saratoga building sale. There's also a line item for the sale of our Manipal investment in India that we did in the second quarter of the year, another $22 million. So, if you add those two numbers together – and then the Europe sale is not yet in the statement of cash flow because the deal is enclosed, it is signed but we have to work through these closing conditions. And so when that comes in, that gets you to the $114 million in total, just to give you that bridge.

And then as far as items for the rest of this year, we do have buildings for sale right now, but I'm not anticipating them to sell yet in the end of 2024. So, I would think about that more as 2025 proceeds.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. And then in terms of the savings that you talked about, $60 million savings, is that a realized number this year or is that an annualized run rate exiting next year? And...

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

A

It's realized. Sorry, Barton. It's realized this year to answer that part of the question.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

No, thank you. So, what would be kind of the annualized rate from that?

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

A

So, if the full $60 million is realized, now you have a little bit more of tailwind as you're pointing out going into 2025, because some of the plant closures, we still had people on for the first part of the year. And so you could see an incremental $15 million to $20 million as you get into the next part of the year, I mean of 2025.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Now, you've talked about your net, your debt reduction. And you did guide to the [indiscernible] (00:42:50) in the terms a little bit. How should we think about your interest expense trajectory from here?

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

A

So, yeah, with the new debt deal, the spread on that increased by 50 basis points. But you will – we expect as everyone else does in the market to see the variable interest rates come down. This is variable rate debt. So, with where our debt is at and how it's a – the interest rate varies based on the debt leverage range that we're at, with all the good work we've done on debt leverage, we could be at an interest rate of 7% relatively quickly and then on a lower amount of debt, right. So, the interest costs could come down quite a bit.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

All right. Great. And then one final question here. Just harkening back to the Google AI arrangement, when do you expect that to start to be in the market and something that's impacting your business at a level that matters?

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

A

I'd say that we expect to sort of roll it out in a live format towards the end of the year, but really rolling into next year. And so it will start to come online through that. And it really sort of impacts the overall experience with our customers because once we bring them in trying to find audience, we expect that it starts to spill over to other services. So, it's revenue from sort of the whole stack that starts to accumulate. But I expect that we'll probably see some early stage reaction from existing clients to start with.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

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

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

A

Thanks, Barton.

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

A

Thanks, Barton.

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

A

Operator?

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

Joel Quadracci

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

All right. Well, thanks, everyone, for joining today's call. And I want to close by reiterating that our integrated marketing offering continues to be a competitive differentiator and key driver behind our ongoing evolution as a MX company. By providing a better experience for our clients, they can focus on best customer experience for their clients. And I'd like to remind investors of our November 20 Investor Day in New York City, where you can learn more about the MX experience. 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.