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Quad/Graphics, Inc. (QUAD)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Quad's Fourth Quarter and Full Year 2024 Conference Call. During today's call, all participants will be in a 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 also note today's event is being recorded.

At this time, I'd like to turn the floor 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 fourth quarter and full year 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 investor 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. I'm pleased to share how we are continuing to build momentum as a marketing experience or MX company that solves complex marketing challenges for our clients.

Beginning on slide 3, I'm proud of the strategic and financial progress we made in 2024 as we continue to advance on our revenue diversification strategy and return to net growth – net sales growth, which we estimate will happen between 2027 and 2028.

Our full year results reflect our disciplined operating performance, including increased profitability margins and continued strong cash flow generation that we use to further reduce debt despite the expected decrease in net sales.

Specifically, adjusted EBITDA margin increased by 48 basis points to 8.4% in 2024, compared to 7.9% in 2023. We also generated $56 million of free cash flow, as well as $71 million of cash from asset sales to further strengthen our balance sheet, including reducing our net debt leverage to 1.6 times. Since January 1, 2020, we have decreased net debt by $684 million, representing a 66% reduction as part of our multiyear debt reduction strategy.

In 2024, we also continued to return capital to shareholders through a quarterly dividend. As announced last week, we increased our quarterly dividend by 50% to $0.075 per share or $0.30 per share on an annualized basis. We will also continue to be opportunistic in terms of future share repurchases.

Turning to slide 4, we show our progress on our revenue diversification strategy into higher value, higher margin offerings. Between 2018 and 2024, Integrated Solutions and Targeted Print increased as a portion of total net sales, representing 65% of net sales in 2024, compared to 54% of net sales in 2018. Our Integrated Solutions include agency offerings through our Rise media agency and very creative agency 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 78% of total net sales as we further diversify our revenue and clients into higher margin offerings. We will also continue to manage organic declines in large scale print, specifically retail inserts, magazines and directories.

Finally, for International Print, we expect continued growth in Latin America, especially in Mexico, which is a strategic extension of our US platform, partially offset by the expected early 2025 divestiture of our European operations.

As we shared at our November Investor Day, with our revenue diversification strategy, we estimate in our mid-term outlook a return to net sales growth between 2027 and 2028, what we are calling the net sales inflection point. We also project that with a net sales shift to higher margin offerings combined with continued disciplined cost management, our 2028 adjusted EBITDA margin will be at least 100 basis points higher than the 8.4% adjusted EBITDA margin we achieved in 2024.

Turning to slide 5. As a company founded on creating a better way, we continue to use every tool at our disposal to improve the marketers' experience. Our MX solution suite features a comprehensive range of marketing and print services that seamlessly integrate creative, production and media solutions across online and offline channels. Supported by data driven intelligence and state of the art technology, we tailor our solutions to each client's objectives with a results driven approach that is flexible, scalable and connected. Not only are we able to remove friction from whatever – wherever it occurs in the marketing journey, we also optimize media and marketing performance through integration.

Our approach improves outcomes for our clients as they move across all channels. It also sets a new industry standard. Unlike competitors who focus on the performance of individual channels and agency capabilities, very much a siloed approach, we ensure all parts work together seamlessly to maximize results.

On slide 6, I'm proud to share how we are continuing to enhance our solutions through the power of our proprietary household-based data stack. For the modern marketer, nothing matters more than audience data. It's core to doing business, and we have built a superior data stack for smarter audience intelligence and activation across all media channels, both online and offline. What makes our data stack different and we believe better, is it's anchored in physical, household centric data. This is a more accurate and resilient data source than digital alternatives like cookies or device IDs, which can frequently change or become obsolete or may not even be attached to a real person. Our data stack, which is built on transparency, trust and respect for privacy, represents 250 million consumers or 97% of the adult US population. It's comprised of more than 3 billion data points that are revalidated weekly and embodies more than 20,000 attributes, including demographic, transactional, attitudinal and behavioral characteristics.

Most significantly, it also includes proprietary identifiers related to consumer interest or, as we like to call them passions, that help to drive deeper, more meaningful consumer engagement and improve business outcomes. These passions are unique to Quad and are linked to our mail stream data, so we know exactly what is being requested in-home and therefore of interest and value to the recipient.

What's more, we can link household data with all media channels for even smarter audience intelligence, activation and integration. We continue to invest in our data stack to ensure it meets our clients ever evolving needs and to maintain our competitive differentiation. Notably, our data stack features an open architecture, meaning we can easily ingest supplemental data from clients and vendor partners and add new capabilities and functionality. For example, we just added transactional data for more than 1,000 brands, which provides valuable insights on customer behaviors, trends and patterns.

We also have made investment to ensure our data stack is future focused and AI ready. As we shared at our November Investor Day, we have entered into a partnership with Google Cloud to leverage AI optimization capabilities in large language models. We intend to create new AI driven solutions that tap into our data stack and seamlessly connect it with clients' creative and media assets to further enable personalization at scale.

Our AI solutions will also include streamlined access to Quad's audience targeting capabilities. Through these efforts, we are creating multiple monetization opportunities such as a sales tool that acts as a point of entry for our entire MX solution suite, a self-service tool for clients who are looking for audience intelligence and leveraging our capabilities with other agency partners.

When it comes to activating our data, we've been very purposeful to eliminate the hidden fees marketers often incur, including the tech tax typically paid to data onboarding platforms that connect, control and activate data. In this way, we are able to maximize our clients' dollars in working media.

Our transparent approach is also channel agnostic meaning we activate our data in any media channel, online or offline based on what is best for achieving our clients' business objectives. Not only are we able to help our clients expertly leverage and all addressable channels such as search, social, video, display, email, direct mail and catalogs, but we also have improved the addressability of traditional mass channels such as television, radio and out-of-home through precise geographic and other audience targeting capabilities. In 2025 and beyond, we will continue to invest in our data stack and related media capabilities to drive new revenue streams.

Turning to slide 7. Our powerful data capability is at the core of our MX solutions suite and enabled by technology to help our clients connect the right message with the right audience at the right time, whether in the home, in store or online. Put simply, we connect brands and marketers with audiences in distinctive ways that drive engagement and results. We recently launched At-Home Connect which modernizes the direct mail channel with an intelligent automated platform that connects online engagement and offline impact. Our platform makes it easy for marketers to create meaningful audience connections through a trigger based personalized direct mail that is informed by online consumer interactions or special life events, all with the scale, automation and efficiency of digital marketing.

We built At-Home Connect to seamlessly interface with a wide range of client marketing automation platforms like Salesforce and HubSpot and manage everything from personalization to printing, mail sorting and in home delivery. When used as part of an omnichannel campaign, our platform helps marketers drive consumers further along their purchasing journeys, converting abandoned online shopping carts into completed sales, winning back lapsed customers, encouraging the purchase of additional or upgraded items and more.

Our solution also addresses digital fatigue with consumers encountering upwards of 10,000 digital ads and 80 emails every day, it is increasingly difficult for marketers to cut through the media clutter and create meaningful audience connections. At-Home Connect solves for this challenge. We are pleased by the strong interest we are already seeing among our clients for this innovation.

While At-Home Connect sparks timely connections in the home, our In-Store Connect solution drives consumer engagement in brick-and-mortar stores where approximately 80% of all retail sales still happen. Turning to slide 8, In-Store Connect taps into the boom of retail media networks, or RMNs, which are heralded as the next big advertising channel. In fact, eMarketer predicts ad spend in omnichannel RMNs will grow to nearly $100 billion by 2028. In-Store Connect is an important and growing subset of omnichannel RMNs and builds on our deep expertise with retailers and consumer packaged goods companies. To remind you, In-Store Connect delivers engaging messages and promotions across the shopper journey, including the store aisle, the most critical moment in the purchasing experience.

Over the past year, Quad has focused on building out a nationwide network of mid market grocery clients, including the Save Mart Companies, the largest private regional grocer on the west coast which launched in 15 stores in Q3 of 2024 and intends to expand to additional stores this spring, and Oklahoma based Homeland Stores which launched in 15 stores in Q4 of 2024 and it's delivering promising initial results.

In addition, we are currently in the process of onboarding our first Midwest based grocery banner, bringing In-Store Connect to three of our targeted six markets within a year of launch. We look forward to building on the sales momentum already in place.

On slide 9, we are pleased to provide an update on our brand design work for Titleist, the golf industry's leading performance brand. Titleist engaged favorite child, the brand design arm of Betty creative agency, to redesign the packaging for its flagship Pro V1 and Pro V1x golf balls, which debuted in market last month. The bold new packaging features a singular tactile monoline inspired by the excellence and rigor that Titleist places into developing its golf balls. The monoline also translates nicely into the launch campaign as a tracing line for the ball's flight path.

As part of the design process, we utilize Quad's proprietary Accelerated Marketing Insights platform to pre market test creative messaging and packaging. Our research included conducting consumer interviews and surveys to understand design preferences and analyzing shopper behavior in mock retail setting to validate the final design's effectiveness on store shelves. Feedback from a cross section of dedicated golfers was positive, with several noting that the packaging's refined design really set it apart from the busyness of other brands.

On slide 10, we share a landmark win for our Rise media agency with Gallo's Spirit of Gallo, the fourth largest spirit supplier by volume in the United States. The company which owns iconic brands such as High Noon, New Amsterdam and RumChata, with searching for a strategic partner to advance brand awareness through media strategies tailored to local markets needs. Our data stack was foundational in securing this new work. During the pitch process, we created a customized dashboard that identified targeted audiences at both a household and zip code level. We identified the best target audience based on a combination of demographic and transactional data as well as insights gleaned from consumer surveys. Our media plan featured the individual and collective strengths of three channels out-of-home, social and connected TV. This approach helped the client stand out among its competitors.

As a family run business, Spirit of Gallo seeks out vendors who reflect its company values. Quad's culture and long held value of do the right thing really resonates with the client as demonstrated by our commitment to radical media transparency and accountability. Spirit of Gallo knows that its spend is being invested directly into working media and not in excess production and process fees. We are excited to be under a multi year contract with this premier brand and look forward to sharing updates with you on future calls.

Turning to slide 11, we share another example of quality's leveraging our data stack to help clients make more informed, impactful marketing decisions. G.O.A.T Foods is a fast growing direct to consumer company specializing in gourmet snack brands. Historically, the company relied on a mix of digital and broadcast media to drive engagement and sales on its e commerce sites like licorice.com and chocolate.com. It approached Quad looking to understand how it might use print media to improve its customer acquisition and sales efforts. Our expertise in audience intelligence coupled with print manufacturing and activation positioned us as G.O.A.T.'s ideal strategic partner.

Leveraging the power of Quad's data capabilities including our proprietary household based data and G.O.A.T's own first party data, we determined the optimal mix of households and prospecting names to send the client's first ever holiday catalog in 2024. At our recommendation, the catalog featured Flowcodes, a privacy forward QR technology for instantly driving engagement, capturing data and delivering results. Our audience targeting capability and offline to online approach was extremely effective with the first two mailings delivering a 9.5 times return on spend. We are further bridging offline and online media channels for G.O.A.T. Foods by sending targeted direct mail postcards to individuals who have shown purchasing interest online but have not yet completed a purchase. G.O.A.T. is extremely pleased with our partnership and is initial catalog results. We look forward to applying findings from our most recent work to further enhance the client's omnichannel strategy in 2025.

Before I turn over the call to Tony, I would like to take a moment to thank our employees for their continued hard work and commitment to innovating for our clients. Through their efforts, we are simplifying the complexities of marketing and driving better business outcomes. In other words, we optimize media and marketing performance through our integrated approach. I am proud of our team and our futures at MX company.

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. Slide 12 provides a snapshot of our fourth quarter and full year 2024 financial results. Net sales were $708 million in the fourth quarter of 2024, a decline of 10.1% compared to the same period in 2023. For the full year, net sales were $2.7 billion in 2024, a 9.7% decline compared to 2023. The net sales decrease in both periods was primarily due to lower paper sales and lower print volumes, including the impact from client mix and increased gravure volume that has a lower unit price with a higher profit margin as well as lower agency solution sales, including the loss of a large grocery client.

Print volumes in the first half of 2024 compared to the first half of 2023 were also adversely impacted by postal rate increases as well as elevated interest rates which led to a decrease in financial services direct mailings.

Adjusted EBITDA was $63 million in the fourth quarter of 2024 as compared to $66 million in the fourth quarter of 2023, and adjusted EBITDA margin increased 50 basis points from 8.3% to 8.8% for the full year. Adjusted EBITDA was $224 million in 2024 compared to $234 million in 2023, driven by lower net sales and $11 million of unfavorable foreign exchange impacts in our SG&A expenses. However, full year adjusted EBITDA margin improved by 48 basis points from 7.9% to 8.4%. The margin increase in both periods was primarily due to benefits from improved manufacturing productivity and savings from cost reduction initiatives.

Adjusted diluted earnings per share was $0.36 in the fourth quarter of 2024, increased from $0.23 in the fourth quarter of 2023 due to higher adjusted net earnings. For the full year, adjusted diluted earnings per share was $0.85 in 2024, increased from $0.52 in 2023 primarily due to higher adjusted net earnings as well as the beneficial impact of a lower share count due to stock buybacks.

During 2022 and 2023, we 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 December 31, 2024, there was $77.5 million of authorized repurchases remaining under that program. We resumed share repurchases in 2025, buying back 28,000 shares thus far, and we expect to continue to be opportunistic in terms of our future share repurchases.

Free cash flow was $56 million in 2024 as compared to $77 million in 2023. The decline in free cash flow was primarily due to a $35 million decrease in net cash provided by operating activities, mainly driven by reduced working capital benefits, partially offset by a $14 million decrease in capital expenditures.

As we have previously shared, we will continue to generate proceeds from asset sales in addition to the strong free cash flow generated by our large printing operations. As shown on slide 13, we generated over $780 million of free cash flow and proceeds from asset sales from 2020 to 2024. These asset sales include divestitures of certain non-core portions of our business as well as sales of property, plant and equipment from Quad's facilities.

We continue to make progress on the sale of our European operations to Capmont and we expect to complete the sale in early 2025. We also expect to generate further cash proceeds in 2025 from the sale of four owned manufacturing facilities we closed in 2024.

This cash generation fuels our capital allocation strategy as shown on slide 14. With our net debt leverage at a low 1.6 times as of December 31, 2024, we are shifting our capital allocation priorities. From 2020 through 2024, our top capital allocation priority was reducing debt. In 2025, we are increasing our investments in innovation and capital expenditures, which we expect will be our largest use of cash. We are also increasing our quarterly dividend and maintaining low debt leverage.

As announced last week on February 13th, our Board of Directors approved a 50% increase in the regular quarterly cash dividend from $0.05 per share or $0.20 per share on an annualized basis to $0.075 per share or $0.30 per share on an annualized basis, representing a sustainable $5 million increase in expected cash dividend payments in 2025 compared to 2024. We are pleased to return capital to shareholders through the quarterly dividend and opportunistic share repurchases.

We show the results of our multiyear debt reduction strategy on slide 15. During 2024, we reduced net debt by $120 million, and from 2020 to 2024 we reduced debt by $684 million, a 66% reduction from over $1 billion of debt we had on January 1, 2020. We intend to further reduce debt leverage to approximately 1.5 times by the end of 2025.

Slide 16 includes a summary of our debt capital structure. At the end of 2024, our debt had a blended interest rate of 7.7% and our total available liquidity, including cash on hand was $328 million. Given uncertainty regarding interest rates, we entered into two interest rate collar agreements for $150 million notional value effective February 1, 2023. The interest rate collars cap our exposure if we were to return to a rising rate environment and with the collar instruments, we also benefit from all interest rate reductions down to approximately 2% so far. Including these interest rate collars, we would pay lower interest expense on 83% of our year end 2024 debt if the Fed decreases rates.

Finally, as a reminder, during the fourth quarter we extended our $690 million term loan A and revolving credit agreement with the ongoing long term support and partnership of our premier bank group. Our next significant maturity of $193 million is now not due until October 2029.

We share our 2025 guidance as shown on slide 17. We expect organic net sales to decline 2% to 6% compared to 2024, excluding $153 million of 2024 net sales from the expected divestiture of our European operations. The 4% decline at the midpoint of the guidance range represents sequential improvement from the 9.7% net sales decline from 2023 to 2024 as we expect a higher growth rate in our agency solutions, targeted prints and international print offerings compared to 2024. Looking at the first quarter of 2025, net sales in January and February will be impacted by the 2024 loss of a large grocery client which will annualize beginning in March 2025.

Full year 2025 adjusted EBITDA is expected to be between $180 million and $220 million, with $200 million at the midpoint of that range, representing a $24 million decline from 2024 adjusted EBITDA. The expected decline in adjusted EBITDA in 2025 compared to 2024 is due to: one, the divestiture of our European operations; two, lower net sales; and three, increased investments in innovation and our offerings to drive future revenue growth.

Despite lower adjusted EBITDA, we expect our adjusted EBITDA margin to be similar to 2024 levels due to increased net sales in our higher margin offerings and continued disciplined cost management, resulting in a projected 2025 adjusted EBITDA margin of 8.3% at the midpoints of our of the guidance ranges compared to 8.4% adjusted EBITDA margin in 2024.

Within 2025, we anticipate lower adjusted EBITDA in the first half of the year due to seasonality and the impact on January and February from the loss of the large grocery client, and then we expect higher adjusted EBITDA in the second half of the year during our seasonal production peak.

We expect 2025 free cash flow to be in the range of $40 million to $60 million, with $50 million at the midpoint of that range representing a $6 million decline compared to 2024. Free cash flow will decrease from 2024 due to higher capital expenditures, the divestiture of our European operations, and the impact of lower sales, partially offset by lower interest payments from reduced debt balances and lower restructuring payments due to four plant closures that occurred from November 2023 to January 2024.

In 2025, free cash flow will be weakest in the first quarter due to the timing of investments in our people in the form of annual bonuses and 401(k) matching payments, as well as the timing of working capital, which this year includes proactive inventory purchases of paper and other materials made in advance of potential tariffs. We are closely monitoring the potential impacts of tariffs on our business and on behalf of our clients, and we will continue to review alternative sourcing options to help mitigate future risks. As a reminder, the company historically generates the majority of its free cash flow in the fourth quarter of the year.

With this strong cash generation, we will increase our growth investments and maintain low debt leverage. Capital expenditures are expected to be in the range of $65 million to $75 million, approximately $13 million higher than 2024 at the midpoint of our 2025 guidance range. In addition, our net debt leverage ratio is expected to decrease from 1.6 times at the end of 2024 to approximately 1.5 times by the end of 2025, achieving the low end of our long term targeted net debt leverage range of 1.5 times to 2.0 times. As a reminder, we may operate above this range at certain times of the year due to the seasonality of our business.

Slide 18 includes our key investment highlights as we continue to build on our momentum as a marketing experience company. As we shared at our November Investor Day, 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 At-Home Connect, 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 2,500 existing clients as well as new clients. In addition, our strong cash generation will continue to fuel our capital allocation priorities. These include investing in innovation and scaling our offerings to drive future revenue growth, maintaining low debt leverage and increasing returns to our shareholders through our next quarterly dividend of $0.075 per share payable on March 14. We also expect to continue to be opportunistic in terms of our future share repurchases.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin that question-and-answer session. [Operator Instructions] Our first question today comes from Kevin Steinke from Barrington Research. Please go ahead with your question.

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

A

Morning, Kevin.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Good morning. I wanted to start out by asking about your shifting capital allocation priorities and you mentioned increasing growth investments in 2025. Can you maybe just update us on the plans for growth investments and the types of investments you're thinking about as 2025 progresses?

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

A

Hey Kevin, this is Tony. I'll start out on that and Joel may weigh in a little bit on this one too. But you know when we first think about our capital expenditures last year, $57 million this year at the midpoint of the guidance range, $70 million. That includes expanded investments in technology such as AI that we talked about during the call, as well as our In-Store Connect offering as we're installing screens that we own into the grocery store and other retail environment. So that's increases in CapEx.

And then in addition, when you look at our operating expenses, there's also increased investments in labor and as we scale our offerings, that comes through the EBITDA line as compared to CapEx. So, I think when you look at the data stack At-Home Connect, In-Store Connect all of those offerings, we're putting money behind to generate future revenue growth.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, sounds great. And maybe walk us through the organic outlook for 2025. As you noted, 4% decline at the midpoint would represent sequential improvements versus 2024. You mentioned you expect higher growth in agency solutions, targeted print. I might be missing something else, but maybe talk about the better growth you expect in those categories and just maybe an overall flavor for the demand environment in terms of postal rates, interest rates, et cetera.

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

A

Okay, Kevin, I'm glad you asked that question. I mean going from 2023 to 2024 was a 9.7% decline in revenue this next year minus 4% decline in 2025. Part of the path that we talk about getting to the inflection point in 2028, right? So from a revenue standpoint, showing good progress on that front.

We are looking for increases in revenue and expecting increases in revenue in our Agency Solutions business, our International Print business. You didn't mention that one. But Mexico, we expect good growth here from we're already seeing strong printing volumes coming from Mexico in the educational books that we export into the US and as well with targeted print, we've got good momentum in direct mail and expecting big years also in our in store and packaging units. So, we think all of those have good success. And then, as we talk about on the other side of the coin, we've got the large scale print units, primarily retail inserts that faces organic decline that we have to offset.

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

A

Yeah, and I'd also add on to that that remember things like our data stack, it's not just that we get revenue from the data stack itself, which we do every time those that data, those names are used, we charge for that. But it also drives growth into the other areas of our offering. Direct mail is a great example as we use our data stack to find audience for people and then translate that into helping them use direct mail to get to them as part of that mix. Remember, as we get into the print area, those invoices are much larger than the agency side, so it drives good revenue and we see more of that happening in direct marketing as we go forward.

Also as evidenced by what we did with Gulf brands with licorice.com, just reflecting a little bit back on the decline you mentioned postal because an important event just happened. As you'll recall, in 2023 when we had a significant decline, it's because the post office had two significant postal increases that year with the unexpected one in July of that year that triggered a lot of the decline we saw. The Postmaster General just tendered his resignation on Monday. His – what is it, The Deliver (sic) [Delivering] (00:45:35) for America plan really has not worked. They continue to lose money. And if you look at what's happened to our customers and why we've had to manage some of this recent higher decline than we had typically seen, from 2021 until today, CPI increased about 16.4%. In that same period, the post office increased postal rates between 50% and 80%, far outpacing anything that inflation did. And that has a direct impact on our customers ability because that's the largest cost that they have.

So furthermore, we do see what was supposed to be a 9% to 10% increase in July. Now they're calling it maybe closer to 13%. And we're doing work to fight against that. At least it's a known entity in people's planning, unlike 2023. And so just some commentary here. He's resigned, asking for the Board of Governors to find a new replacement. A lot of damage has been done. So we look forward though to seeing who comes on board and how they reflect on some of the past practices and how that should be adjusted.

But I think that whenever people are under pressure on the postage thing, it actually increases our ability to help them on the data side to increase the responsiveness of print. And so we have a lot of effort right now, especially with the launch of the data stack, to hit all our existing customers that we typically in our history hadn't been involved in helping them find audience. Usually they're supplying the audience to us, using another agency to help them with that. Now we're actually aggressively going after them to help them increase response. Because if we can increase responsiveness of those names, that audience just a little bit, we can offset the impact of those costs. And so a little bit more of an answer than you wanted. But some breaking news that happened Monday regarding the post office.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

No, absolutely. That's really helpful insight. I appreciate that. So, obviously there's ongoing innovation at Quad here. You talked about At-Home Connect. And the strong interest you're seeing there. Can you talk about maybe how you monetize that? Is that just a tool to help you drive more direct mail volume from your clients or is that kind of a service they would pay for? I'm just trying to see how the economics of that work for your business.

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

A

Yeah, it's all the above. I mean it's linked to our technology tools but also to our data stack because it's really allowing them as they see things happen with people that they're reaching out to the audience that they're hitting in any channel where we can automatically get those signals and target direct mail pieces automatically, very personalized. And you know, some of the past investment we've done – a lot of past investment we've done is in being able to do highly personalized direct mail. So, when we think about traditional direct mail, it's like same thing to everybody. When we think about like the direct mail we do for Kroger Company, it's like every piece is completely personalized. And so the same holds true with the trigger based program where you can almost automatically, as those signals come in, trigger an offer based on what that signal was for that specific consumer. And so obviously it's part of a greater omnichannel approach as we're helping them manage across all channels. And this one just helps you activate it more. So, we do get revenue on all the stuff stack, including the higher revenue bucket of direct mail.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, great. And you talked about tariffs there and analyzing the potential impact. Can you just review maybe the exposure there? It sounds like you're still expecting good growth out of Mexico, but any thoughts on potential impact there and having to pass on price increases or pricing, et cetera?

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

A

Yeah, I'd say that if you think about where would be the biggest impacts of the tariff in North America, meaning Mexico or Canada, it actually would be a 25% tax on Canada if that were to happen. Because as print has consolidated, so is the paper industry. And now much of the paper that we use for a lot of our marketing clients you can only get mostly in Canada and can no longer get in the United States. And so there is no replacement opportunity for that. So if there were to be a big tariff that was put on, it would impact paper.

Now I will remind you that paper is a pass through to our clients so we don't incur that risk. However, if you were to incur that, you would maybe see some indirect further pressure on volume. Now what we have done for many of our clients is we've brought forward Canadian paper that we believe will allow us to weather what we think would be more of a short term storm as the North America tariff game plays out. If it were longer term and they stuck to a significant tax, then we would look to further help our clients mitigate that through more clever uses of marketing to offset that big increase. But we feel, in the short term, we've been able to mitigate that.

We really don't have much exposure to China, not directly, maybe through how some of our clients source product, but not for us. And then Mexico, our biggest exposure is that we do export some books from Mexico into the United States that ultimately we probably could find a solution for in the United States if that happened in the short term.

Kevin Mark Steinke
Analyst, Barrington Research Associates, Inc.

Q

Okay, great. So, 2024 was a good year in terms of improved manufacturing productivity and cost savings. Are there any meaningful buckets of savings we should think about in 2025? Just there's a just kind of ongoing diligence with regard to costs? Just kind of trying to think through the expense side as we move throughout 2025.

Joel Quadracci

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

A

Yeah, I think, as you've seen, we're always on a continual cost management cycle, especially as we've learned to deal with declining volumes. What our manufacturing group, who has a significant amount of the revenue, have done is truly amazing. Every time I think that they can't figure more stuff out, they do. And that's from things like how we manage labor, how we rethink that, how we adjust very quickly, and how we manage labor when the peaks and valleys, sort of the trends that happen year-over-year keep changing because it's a dynamic marketing environment. So, they become just very, very flexible on how they do this. And obviously we've had to close plans over time to adjust for volume, which we don't like to do, but we've been able to do in the past. We don't foresee anything significant in the coming year in that place.

But I would also tell you that when we invest in things like AI, I know we – we specifically talked about AI as it relates to the data stack. We also do have a lot of projects using AI to decrease the amount of labor being required in things like content creation, where things that were typically done manually can be more automated. We've done more shift of sort of some services into India, where we have a wonderful, wonderful, talented group of people who can do content that does have to be done hands on. And so, I think as a lean enterprise company for a long time who's in a tough industry, we've become very good at continually defined cost takeout and we will continue on that path.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

And Kevin, we continue to challenge ourselves as well to streamline administrative operations through AI and technology. What can we do from a systems perspective to make things smoother.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Q

Okay, sounds good. I will turn it back over. Thanks for taking the questions.

Joel Quadracci

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

A

Thanks, Kevin.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

A

Operator?

Operator: Our next question comes from Barton Crockett from Rosenblatt. Please go ahead with your question.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Q

Okay. Thanks for...

Joel Quadracci

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

A

Good morning, Barton.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Good morning. Thanks for taking the question. I was wanting to get a little bit kind of just a clear sense of what you're seeing for revenue trend as we start the year. You've had some volatility. I mean the fourth quarter was down 10% year-over-year. The third quarter was down like 3.6% year-over-year. You're guiding for this improved trend over the course of 2025. But how should we think about the revenue trend here in the beginning of 2025 here in the first quarter?

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

A

Yeah, if I – this is Tony, Barton. If I started from the your comment on the third quarter versus the fourth quarter last year, we had commented at one point that in the third quarter of 2023, July in particular was a weak month for us, gave us a good comparable in the third quarter which led to a lower revenue decline, the 10% decline in the fourth quarter, pretty close to what we expected. And now as we go into 2025, we still have as pointed out in the call, the headwind of two more months of the large grocer loss. And then as you'll go throughout the year, especially in the second half of the year with our seasonal production peak, you' increases in our volumes as well as back ended increases in our agency sales for the year, right? So start lighter and it'll pick up throughout the year.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay, so – but you can't tell us like a pacing number at this point. Is it down double digit or single digit, anything of that specificity or not really at this point?

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

A

I mean, first quarter again going to be lighter, I think comparable is something like a high single digit and then improving from there.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. All right. Thank you. Now, in terms of asset sales, just want to make sure I kind of understand. So, can you give us any sense of the asset sales that are inked but not yet booked? I mean, I know you've inked the Europe sale. I think you've inked a Saratoga Springs sale, I'm not sure if that's been booked or not. Where do we stand on that on – what you can say about cash proceeds that should come in from asset sales that you've inked but haven't yet received?

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

A

Yeah. Yeah. So, I'll start off with the Saratoga Springs facility that was inked and sold completed in the late third quarter of 2024 cash received and helped out in paying down debt during 2024. For the Europe sale that is inked. We continue to work closely with Capmont on getting to close. We expect that in early 2025. And then on the four building sales that we still have for sale, one in Sacramento, one in Waukee, Iowa and two in Effingham, Illinois. We have modeled all four of those to take place in 2025. Real estate, it always depends on the market at the particular time. So, we continue to make progress on those sales actively being marketed and included in our 2025 guidance in terms of where we're going to bring net debt leverage to one 1.5 by the end of the year.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

But also just to understand that, I mean your net debt part of the net debt leverage calculation is down $50 million. The – you're going to get let's say $50 million of free cash flow, maybe $15 million of that goes out for dividend. And so at least $35 million plus the asset sales. And as I understand, your Europe sale was for over $40 million of cash to come in with at least the announced kind of sales price. So, it seemed like you could do better than this net debt that you've spoken about with the asset sales fully realized. Is that reasonable?

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

Yeah, I mean, I'll just add to that. I mean, our intention and we have a long term debt leverage range of 1.5 to 2 that, not that long ago was 2 to 2.5. But we've done a great job at reducing debt. Now that we're at that basically low end of the guidance range that we expect to be at by the end of this year, we're maintaining dry powder for things like opportunistic share buybacks, even potentially smaller M&A that could be uses of cash. It also gives us some flex depending on how these asset sales come in and what year they're in, right, we can adjust accordingly. So, we feel comfortable given those levers, that we can say $300 million of debt at the end of the year and 1.5 leverage.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

Okay. And then in terms of your revenue guide for the year, does that assume that the tariff issue in Canada, which could drive up costs that might slow client demand, kind of like postage has? Is your assumption that that is not a factor, so that could be a negative bias if that actually becomes permanent?

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

I think we look at it as we feel good in the short term, right? And who knows how these things play out? I mean, it's – I think everybody's guess right now. But if there was sort of a leveraging event where he kicks in a 25% tariff on Canada to get more of what he wants, we've already bought forward on paper for that. If it becomes permanent, then that becomes another impact that we have to think about. But we hope that does not happen.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

Okay. All right. And then just the final thing, Joel, on the Postmaster General. Any early thoughts about who's going to get into that seat? Have you heard anything any suggestion that the successor would have a different policy or approach?

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

Yeah. First of all, I'm not volunteering to be clear, but it all happened just two days ago. I've already talked to one of our senators just to make sure that they know the lay the land because there's several Board of Governors seats that are named, new seats that are named but are not yet confirmed and those have been sitting there. Now Trump is in office. We don't know if he will decide to change any of those. But if they are confirmed, we're just trying to arm them with data they should use as they vet out a new Postmaster General, specific to like the numbers I shared and what negative impact that's had on the post office. In the normal course of organic decline the overall the per piece decline was about 1.6 billion per year pieces from the time he started his increase, it's gone until today is 13.6 billion pieces. And so, obviously a direct correlation to a 50% to 80% increase in price. So it's that type of perspective that we're making sure that the people who are going to be betting the candidate understand and make sure that betting is done with those perspectives in mind. This will play out for a while, I suspect. So, we do not know how long it will take at this point in time.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

But there's probably just the timing as such. It's not going to really have an impact on expectations for maybe a 13% rate hike mid year?

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

A

Yeah, no, I would say that we are counting that that will probably go forward. Whatever it is, whether it's 10% or 13%, we're clearly making efforts to minimize that impact.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay.

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

A

But I would expect that to be to go through unfortunately.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. Yeah, I guess I could see unfortunate that that can't be averted, I guess. But the – but thanks a lot for the help here. I really appreciate it.

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

A

Thanks, Barton. Operator?

Operator: And ladies and gentlemen, that will conclude today's question-and-answer session. I would like to turn the floor back over to Joel Quadracci for closing remarks.

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

Thank you for joining the call today. I want to close by reiterating that our integrated marketing offering continues to be a competitive differentiator and a key driver behind the momentum we are seeing as an MX company. By providing a better marketing experience, our clients can focus on delivering the best customer experience. At the same time, we remain focused on enhancing our financial strength and creating shareholder value. With that, thank you again and have a good day.

Operator: And ladies and gentlemen, that will conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.