

31-Jul-2024

Quad/Graphics, Inc. (QUAD)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Katie Krebsbach

Anthony C. Staniak

Manager-Investor Relations, Quad/Graphics, Inc.

Chief Financial Officer, Quad/Graphics, Inc.

Joel Quadracci

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

OTHER PARTICIPANTS

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Quad's Second Quarter 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 & 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 second 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 second quarter results were in line with our expectations. Net sales declined versus prior year due to lower paper print and agency solution sales. Print volumes continue to be negatively impacted by ongoing external headwinds, such as significant postal rate increases and elevated interest rates. However, during the second quarter, we achieved improvements in both adjusted EBITDA and adjusted EBITDA margin, with adjusted EBITDA margin increasing by 100 basis points to 8.2%.

We continue to manage all aspects of our business by treating all costs as variable, aligning our cost structure to revenue opportunities, and optimizing our print manufacturing platform by consolidating work into plants where we can achieve the greatest manufacturing efficiencies and subsequently selling assets no longer required for business operations.

Turning to slide 3, our MX solution suite spans every facet of the marketing journey from offline to online, across creative, production and media, supported by data driven intelligence and state of the art technology. Our focus as a marketing experience company includes delivering integrated service excellence, which we achieved by removing pain points and sources of friction from the marketing process and providing transparency on clients' marketing expenditures. Accelerating market penetration in key verticals and product lines with the greatest expansion opportunities, and continuing to leverage our unique company culture, which is based on honesty and transparency to grow as an MX company. On slide 4, we continue to expand our presence in retail media networks, one of the fastest growing media channels today. As I shared on last quarter's call, eMarketer predicts ad spend in omnichannel retail media networks will grow to more than \$100 billion by 2027.

Our solution, called In-Store connect by Quad, elevates the shopping experience by taking the best elements of digital commerce and bringing them into physical store environments where purchase intent is highest. Our ability to help CPG brands create engaging and inspiring messages right at the store shelf drives consumers beyond awareness and deep into the purchase funnel.

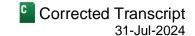
In-Store Connect is backed by a robust content management system featuring content developed by Quad. As previously announced, we are partnering with the Save Mart Companies, the largest private regional grocer on the West Coast, to launch In-Store Connect, which is happening now. We also just announced our next partnership with Homeland Stores, a large Oklahoma based grocery chain, which is scheduled to debut our solution in October.

Additionally, we are in conversations with more than a dozen other supermarket chains and big box retailers and are already actively selling inventory to CPG companies. To enhance our In-Store retail media network, we have also partnered with tech company Swiftly to further integrate online and in-store advertising, creating a richer, more engaging omni-channel shopping experience. For today's brands and brick and mortar retailers, this type of integrated experience is crucial to retaining a loyal customer base and attracting new shoppers.

Retailers are enthusiastic about our In-Store connect solution. Homeland Stores told us this is a breakthrough for retailers like us because it allows us to stack up against the big e-commerce players while enhancing our in-store experience and providing our customers with relevant and engaging digital content.

Moving on to slide 5. During the quarter, we joined all of our accretive business lines under a single agency, Betty. This answers the market need for fully integrated, flexible, creative solutions that put quality first regardless

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of project size, scope, timeline or budget. Through Betty, we help marketers do more with less in today's ultracompetitive landscape with brand strategy and design, data driven campaign ideation, pre media, retail and adaptive design, powered by innovative AI technology to automate and scale with ease, content creation, including in-store and on-location services. Our creative solutions are backed by our 24/7 global production platform to offer highly scalable breakthrough creatives at elevated speeds without sacrificing brand consistency or quality.

We're confident Betty will redefine creative excellence and drive growth for our company, I'm moved that our team chose to name the agency for my mother, the late Betty Quadracci. She was a fearless business trailblazer who helped my father establish Quad. She also started our first creative division, Quad Creative. The name Betty aligns with everything our creative services brand stands for boldness, inclusiveness, creativity and tenacity, and is an incredible way to honor her legacy.

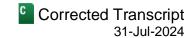
We continue to enhance Betty's ability to provide skill without sacrifice through our robust video and photography studio capabilities, as shown on slide 6. During the quarter, we introduced 3D Commerce by Quad, the first commercially available, automated and scalable 3D scanning solution in North America market. This solution creates photorealistic 3D assets, capturing a brand's product in 360 degrees with intricate surface level detail. Assets are used for a range of photo and video applications, including virtual try-on and augmented reality experiences for websites and mobile apps. This solution is a key part of our MX Creative offering. It makes the marketer's job easier by efficiently creating high quality assets at scale and enhances the consumer shopping experience, ultimately driving higher sales activity for the retailer.

We are pleased to bringing this game changing solution to market through our partnership with Covision Media, a cutting-edge AI tech company specializing in high performance 3D scanning. Covision is well-established in Europe, serving companies like Zara, Adidas and Meta, and reports that its clients have experienced up to 200% to 300% increase in add to cart rates while significantly returning, reducing return rates. The solution also generate significant time and cost savings for clients. Quad will continue to work to find ways to integrate it into other uses in the future. We are already using the technology for client work, helping a global sportswear brand launch a new athletic apparel line. I'm confident that brands innovative offering to the US with further position that is a market leading content producer.

Our leadership as an MX company continues to be validated through awards and recognitions as shown on Slide 7. Once again, we are featured on the Ad Age world's largest agency companies list. For the second time, our Rise Media Agency received a Sammy award for Connects, our cutting-edge proprietary media optimization platform. Quad's expertise in health care marketing was recognized with our first ever listing on the MM+M Agency 100, an annual ranking of the industry's top healthcare marketing firms. And for its creative campaign work for Summit Brewing Company and [ph] Heckuva (9:52) our Betty Agency was shortlisted for a design competition award by Communication Arts, the largest creative magazine in the world.

Turning to Slide 8, in June, we returned to the Cannes Lions International Festival of Creativity, the largest gathering of the global advertising and creative communications industry. While there, we shared our innovation story and strengthened relationships with marketing decision makers from around the world who are looking for scalable solutions to help drive their brand's growth. We gained insights on marketers most pressing challenges and shared how we can solve them through our MX Solution suite. Since relaunching our brand last year, many more attendees have come to recognize us and our ability to deliver on our promise of make – of better marketing is built on talent.

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On Slide 9, we show how our MX Solution Suite has driven business results for two of our many clients. Our Strategic rebranding and print packaging work for Summit Brewing Company increased sales of its Twins Pils beer by 3.5 times in the 12-month period after launch. The client told us Quad is a highly trusted partner from Creative all the way to printing. We helped Stanley Steemer, a US leader in floor cleaning, raise brand awareness through the power of engaging online videos. We created three targeted YouTube ads for our week long brand lift study. Our efforts led to a 108% increase in searches while lowering cost per 1,000 impressions by 28%.

On Slide 10, we shared how Favorite Child, the brand design arm of our Betty agency, uses the power of strategic design to help brands realize their fullest potential and become favorites in their category. Launched in 2022, Favorite Child is growing rapidly. Revenue in its client portfolio is more than doubled in the first four months of 2024, representing work for clients like Target, Walgreens, Dole and Bernatello's Foods. Recently, Favorite Child won a multimillion dollar contract supporting one of America's fastest growing grocery retailers, whose platform includes over 2,000 US stores. Our work includes helping launch a new flagship owned brand, which will be applied across a majority of its product lines, redesigning the existing organic private brand and performing design execution and photography for all the client's own brand products.

Turning to slide 11, we further demonstrate our expertise in the grocery vertical through our 15-year relationship with one of the nation's leading supermarket chains. Our relationship began with traditional, large-scale print, but has since grown into personalized direct marketing, tech and media solutions focused on enhancing consumer connections, driving sales and revenue and streamlining processes. For example, with our proprietary retail media content management solution, the retailer is able to dynamically create personalized ads for millions of loyalty members delivered in their preferred media channel. The process of creating the ads is frictionless. The retailer's CPG partners enter their product information and new offers into one central location, then using its robust loyalty member data, the retailer scores products and channels against consumer preferences to craft hand-picked offers. This solution drives incremental revenue for the grocer while providing first-party data insights to CPGs.

Additionally, we are helping the retailer take a more data-driven approach to in-store circulars using the variable data printing capabilities of our digital press platform to create deals and savings by geography. We also support the retailer's in-store shopping experience by producing a large portion of its in-store signage, printing 750,000 pieces across 2,500 kits each week. These kits are highly complex and segmented by region.

Before I turn the call over to Tony, I would like to reiterate my confidence in our team, our strategy, and our future as a marketing experience company. Our pipeline for new business remains strong thanks to our MX Solution Suite. We will continue to prioritize growth in verticals and product lines with the greatest expansion opportunities, while managing all aspects of our business for long-term strength and stability and shareholder value creation.

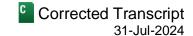
With that, I would like to turn over the call to Tony for the financial review.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Thanks, Joel, and good morning, everyone. On slide 12 we show our diverse revenue mix. Net sales were \$634 million in the second quarter of 2024, a 10% decline compared to the second quarter of 2023. And net sales in the first half of 2024 were \$1.3 billion, a 12% decline compared to the first half of 2023. Net sales decline in both periods due to lower paper, print and agency solution sales. Our print volumes were negatively impacted by ongoing external headwinds, including significant postal rate increases and the impact of ongoing higher interest rates on our financial services clients, as well as the loss of a large grocery client.

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On a year-to-date basis, magazines and catalogs increased as a portion of our net sales mix by 3% compared to the previous year due to recent segment share wins such as AARP. These segment share wins also increased our mix of lower unit price per [ph] year (15:28) printing versus offset printing volumes. In addition, Latin American net sales decreased by 2% as part of our total sales mix, primarily from lower educational book volume exported to the United States.

Slide 13 provides a snapshot of our second quarter 2024 financial results. Adjusted EBITDA was \$52 million in the second quarter of 2024 as compared to \$50 million in the second quarter of 2023. And adjusted EBITDA margin increased 100 basis points from 7.2% to 8.2%. On a year-to-date basis, adjusted EBITDA was \$102 million in 2024 compared to \$111 million in 2023. And adjusted EBITDA margin increased 41 basis points from 7.5% in the first half of 2023 to 7.9% in the first half of 2024.

The margin increase in both periods was primarily due to benefits from improved manufacturing productivity, savings from cost reduction initiatives and a \$4 million gain on the sale of our minority investment in Manipal technologies, a leading print services and end-to-end business solutions provider headquartered in India.

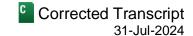
In the first half of 2024, we completed previously announced restructuring actions, including plant closures and labor reduction initiatives that we expect will generate \$60 million of cost savings during 2024. Adjusted diluted earnings per share was \$0.12 in the second quarter of 2024, as compared to \$0.02 in the second quarter of 2023. Year-to-date, adjusted diluted earnings per share was \$0.22 in 2024, compared to \$0.17 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. Free cash flow was negative \$82 million in the first half of 2024, as compared to negative \$45 million in the first half of 2023. In the first half of 2023, we realized non-recurring cash flow benefits from reducing inventories enabled by an improved supply chain environment As a reminder, the company historically generates the majority of its free cash flow in the fourth quarter of the year.

As we have previously shared, we will continue to generate strong free cash flow in addition to proceeds from asset sales, as shown on Slide 14. During the five year period from 2020 to 2024, we expect to generate over \$740 million of free cash flow and proceeds from asset sales and with this cash generation, we expect to reduce net debt by over \$600 million or 60% during that same five year period. Asset sales include divestitures of certain non-core portions of our business, as well as sales of property, plant and equipment from closed facilities. In April, we sold our minority investment in Manipal Technologies and received total proceeds of \$22 million during the second quarter. We also continue to make progress on the sale of four owned facilities previously announced for closure, from which we will generate further proceeds.

Slide 15 includes a summary of our debt capital structure. At the end of the second quarter of 2024 our net debt was \$532 million compared to \$470 million as of December 31, 2023 and the debt leverage ratio increased 35 basis points to 2.36 times. Net debt increased from 2023 year end, primarily due to business seasonality with negative \$82 million of free cash flow in the first half of 2024, partially offset by \$22 million of proceeds from the sale of our minority investment in Manipal Technologies. Removing the impact of seasonality, we have reduced net debt by \$72 million over the past 12 months. Including interest rate derivatives our debt at the end of the second quarter was 59% floating and 41% fixed at a blended interest rate of 7.6%. Our total available liquidity, including cash on hand, was \$222 million and our nearest significant debt maturity is in November 2026. We show the seasonality of our free cash flow and debt leverage, as well as our long term commitment to debt reduction on slide 16.

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Due to the seasonality of our business, we will operate at certain times of the year above our targeted debt leverage range of 1.75 times to 2.25 times. 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 seasonal pattern and we believe we are on track to further reduce debt leverage to approximately 1.8 times at the end of this year, near the low end of our targeted long term debt leverage range.

We reaffirm our full year guidance ranges as shown on Slide 17. For full year 2024 our annual net sales guidance is a decline of 5% to 9% compared to the prior year. We now expect full year net sales to be near the higher end of decline in our guidance range due to ongoing macro economic headwinds, including postal rate increases and elevated interest rates. We will continue to closely monitor these specific headwinds for our company and on behalf of our clients.

Full year 2024 adjusted EBITDA is expected to be between \$205 million and \$245 million, with \$225 million at the midpoint of that range. As we shared last quarter, we expect sequentially higher adjusted EBITDA in the second half of 2024 compared to the first half of 2024 due to the full benefit of the restructuring actions completed in the first half of the year, combined with increased sales during our seasonal production peak. We expect 2024 free cash flow to be in the range of \$50 million to \$70 million, with \$60 million at the midpoint of that range. Free cash flow will be most impacted by higher restructuring payments in the first half of the year, partially offset by reduced capital expenditures, with capital expenditures expected to be in the range of \$60 million to \$70 million. The primary use of free cash flow in cash proceeds from asset sales will continue to be debt reduction and we reaffirm our debt leverage ratio to be approximately 1.8 times at the end of 2024.

Slide 18 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 3D Commerce by Quad 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 in scaling our offerings, further reducing debt and returning capital to shareholders through our next quarterly dividend of \$0.05, payable on September 6. 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: 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. Good morning Kevin. Anthony C. Staniak Chief Financial Officer, Quad/Graphics, Inc. Good morning Kevin. Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Thank you good morning. I want to start out by asking about the pipeline for your retail media networks or our end offering. It looks like that continues to build nicely. Maybe just speak to how quickly those opportunities can move through the pipeline and then just the larger opportunity, even beyond what you currently have in the pipeline.

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

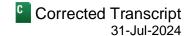
Yeah. You know, I think that this has been a story that's been developing very quickly this year, not just at Quad, but also in the industry. But so, Cannes is always a good place to kind of get a feel for what people are talking about. And last year, this time, they were talking about retail media networks because it's a big, it's a big growing area, but it really accelerated when we were there this year. So the whole industry is trying to capitalize on this because, when you look at a digital retail media network like an Amazon where they're selling significant ad dollars to CPGs a lot of the retailers can't compete with that and they're trying.

And so especially if you're a mid-size to even larger ones, people are trying to figure it out. And when you go into the store, that's where your intent to purchase is the most and brick and mortar is here to stay. I think it's stronger than people thought it would be. And so there's really an opportunity here where you're putting the digital screens right in front of people and being able to serve up content very specifically that you've sold to CPGs to populate the space. And so what we've seen is with Save Mart. We started those conversations early on. They see where this is going. And they were very intent at getting going with testing. So that's where we're actually right now going live and rolling out stores.

And then you saw our new announcement just in this conference call about the next one. And we are talking to quite a few because I think it's one of these things where people want to see the proof in the pudding. Like what happens when you actually do it? What is the result? What are the metrics around it? And that's why Save Mart started with 15 stores to get up right away. But if you think about where this is going, like if you could get up to call it, 600, 700, 800 stores live on a retail media network like this every week that's more than the audience of the Super Bowl. And so that's meaningful.

And so I think the race is on for us to try and build those eyeballs quickly. And retailers see the opportunity and some will kind of probably wait to see and others are very anxious to kind of get in on it so they can start building

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their own test data as we go. So, I'd say that the time to convert, depending on the customer's willingness to kind of go out there, can be pretty quick. And like I said, we're rolling them out right now and we only launched it not long ago. So this is a big deal. And we're also trying to make it very easy for them to say yes, because we bring a full offering.

It's one thing to put the digital screens in, it's another to pay for them. So we've been incurring that CapEx upfront to help them make that decision. But once you have the screen space and the inventory, you've got to be able to serve up the content. And so now a lot of the live ads that we're doing for some major brands are actually created by Quad to serve it up and can be specifically routed to whatever stores people want to buy. And so that's the key to this. It's not just about putting digital screens in. It's about putting digital screens that are designed to look like they fit. It's not just slapping something on the wall, but also creating the content and the whole wraparound services to make it painless for the retailer to do this. And so we've been assembling that for a while.

The DART acquisition was sort of the last thing we needed to really provide that hardware platform. And so, we're very excited about this. We believe a lot in it, as you can tell. And the pipeline is building pretty quickly.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Okay. That sounds great. And it sounds like you feel like you have a pretty unique offering there. You said – you talked about the ability to create content as well as deploying the digital streams. And I'm just wondering, given the emerging nature of this opportunity, if you're seeing a fair amount of competition in the marketplace and where you feel like you're positioned competitively in this RMM landscape.

Joel Quadracci

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

Yeah, I think there is definitely competition and there are screens out there doing things, but ours is a little bit more unique in that it's the full service, the full line of stuff. And think about it, if you can create that coast to coast, sort of set of a lot of stores that matter enough to a CPG, we can actually hit, they can decide in what order, wherever they want to serve it up. So it's a very dynamic offering.

The big guys, you know, like an Amazon obviously will do it themselves. You've got other people like Walmart who made a big acquisition for this. They'll try and do it themselves, but most retailers aren't really set up to do it. So I think the fact that we're already rolling this out live and gives us more of an aggressive, I think, full service first mover opportunity here relative to the competitors. But certainly there'll be competitors. I mean, this is a huge space, growing rapidly. And the retail media network for brick and mortar is just in its fledgling stage.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

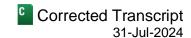
Income. And I'd add to that, I think we're better capitalized than our competition for this with the work that we've done on debt reduction. We've got the dry powder to take advantage of this opportunity.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Okay. That's great. And you mentioned there the DART Innovation acquisition to help build out the offering. Then can you also talk about the partnership with Swiftly and I'm just trying to understand a little bit better what that partnership brings to you in terms of the In-store connect offering?

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Joel Quadracci

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

Yeah. So, Swiftly really brings to us another sales channel to sell the inventory. They're already out there doing that for different format stores and retail media networks in general. So the opportunity is to, we want to fill that inventory. Once you have those screens up, you've got to sell the ads. And I think in the early days, you've got to go fast because to a lot of big CPGs, they're not going to necessarily want to buy inventory until it's meaningful. And so we're out there selling wherever we can get people to do it because there are a lot of people who also want to learn as the learning curve happens and placing that inventory. So they're another sales channel, but then they also help manage sort of the back end of the transactions on the inventory. So it's another sales channel for us, but also a great partnership in a great company.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Great. That's helpful. And just switching gears here, in talking about some of the sales headwinds you're encountering in terms of postal rates. And have you seen any easing there in terms of your clients becoming a little more used to operating in an environment I know you recently lost [ph] watched household fusion (32:18) or any further discussions with the relevant government parties about the future direction of rates. Maybe just an overall update on the postal rate landscape and how you're addressing that?

Joel Quadracci

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

Yeah. To remind everybody, last year, we saw a pretty significant reset of volume in the second half because the post office had surprised our clients with a significant increase last July that wasn't built into their annual budget cycle. And so, that's when we saw a big pullback. So if you think about the first half of this year, that's carried through because you didn't see a spring forward after the first of the year. I also had talked about in previous calls my concern about the postal rate increase that was happening this July just happened about a week ago at 10%. Remember, this is the largest cost for people using print to get to the household. My hope was, is that people weren't surprised this time and that they were able to sort of manage it into their budget. And I'd say so far so good. We haven't seen the same significant pullback, which we would typically have seen by now for the second half. It doesn't mean there won't be some ebbing and flowing on that because people are still also very concerned about the consumer. And, that's another reason why we are at the low end of our sales guidance is because of the continued economic sort of uncertainty. I mean, and I'll come back to that.

But, to further answer your question, we are certainly have all sorts of efforts. We've submitted comments. The Postal Rate Commission is doing a total review of the structure and what's going on. Congress is very upset with the post office because they've launched a major restructuring that's supposed to fix things. But performance has been horrible. So they're hearing from their constituents and they're counting on a whole bunch of parcel volume to kind of be their future. But unfortunately, the horse has already left the barn on that. If you read Wall Street Journal yesterday about Amazon starting to get more aggressive in the rural areas for delivery, that typically is handled by the post office. So I think, all efforts are on to continue to try and get the service to moderate their increases because it's self-defeating and we'll continue to do that.

Let me just touch on the economic part of it is, we said last year when interest rates went crazy, that impacted us certain sectors of our business, obviously the financial segment and the use of print, we're seeing a slow recovery there, but hopefully it will recover.

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And then the first half, I mean, you look at even the number of units in the CPG world were negative. So people were switching from nice to have to need to have because of inflation. You know much of America has been hit by inflation and now only recently did the CPG world talk about flat number of units. And so you kind of combine that all, and that's where you see the headwind on the top line sales. I will say that we've had some segment share gains in publications in catalogs. So volume is actually quite nice with segment shares coming in. But there's a mix change that happened with some of those segment shares. So we have two types of printing, offset printing and gravure printing. Gravure is typically more efficient but longer run. And some of that segment share came in that space. So while more profitable, the per unit price because of the efficiencies typically lower which would impact our top line sales as well.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Okay. That's helpful commentary. And as you have on past calls to me, maybe just run through some of the sales trends and some of your key, the key product categories, what you've seen maybe in the quarter and year to date. And then, related to that, just even with your expectation that maybe the sales will be towards the lower end of the guidance range it still implies a pretty healthy seasonal ramp in the second half in terms of sales. Are you seeing some your typical seasonal ramp up or a benefit from recent business wins or maybe if you'd speak to that as well?

Joel Quadracci

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

Yeah. That's actually that is correct that again, with the postal rate when it hit, we saw, kind of across the board negative, high single to low double digit decline in the different categories that use postal. And then some of the stuff in like packaging and store were down because of the economic thing. But it does imply a ramp up in the second half because then you get the annualization of the impact of the postal rate increase, but also some of the segment share comes in. I mean if you look at publication catalogs, volume wise, those were up not down volume wise, but still down sales wise because of that mix change.

And so I guess I'd characterize, in general a lot of the stuff in the first half was down because of the things I just talked about but you should see a nice ramp up in the second half, which is the busier time of the year.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Yeah, we'll have closer quarter results to our comparables of the prior year in the second half of the year than the first, our revenue decline will not be as much.

Kevin Mark Steinke

Analyst, Barrington Research Associates, Inc.

Okay. Yeah, understood. I will turn it back over for now. Thanks for taking the questions.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

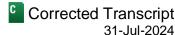
All right. Thank you, Kevin.

Joel Quadracci

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



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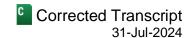
Operator next question. **Operator:** And the next question comes from Barton Crockett with Rosenblatt. Please go ahead. **Barton Crockett** Analyst, Rosenblatt Securities, Inc. Okay. Thanks for taking. Joel Quadracci Chairman, President & Chief Executive Officer, Quad/Graphics, Inc. Good morning Barton. Anthony C. Staniak Chief Financial Officer, Quad/Graphics, Inc. Good morning Barton I wanted to thank you for picking up coverage in May and welcome officially to the team here. **Barton Crockett** Analyst, Rosenblatt Securities, Inc. Okay. Happy to be covering you guys and thanks for taking the question. So I guess one of the things I was curious about is just getting circling back to your guidance. So you're saying, at the high end of the revenue decline, but you're not seeing anything about EBITDA and free cash flow. One might presume that it could follow, that you'd be at the worse end of the range for those just the revenues at the worse end, but maybe not with your cost cutting. So what can you say about the EBITDA and the free cash flow guidance ranges? Anthony C. Staniak Chief Financial Officer, Quad/Graphics, Inc. Yeah. Appreciate the guestion, Barton. So I think you've caught on a major theme for us, which is while smaller, as Joel discussed with the revenue pressures, a more profitable business when you look at our margins with a lot of focus on cost reduction and labor and manufacturing productivity improvements, that will keep our EBITDA and free cash flow higher such that we did not feel the need to guide to the lower end of those respective ranges. Joel Quadracci Chairman, President & Chief Executive Officer, Quad/Graphics, Inc. I think one of the things that we're proud of with the 100 basis point improvement in adjusted EBITDA margin is, we've got a knack for doing cost reduction and productivity improvement in a sustainable way as opposed to sort of onetime shots. And so that's why we feel good about where we're at. **Barton Crockett** Analyst, Rosenblatt Securities, Inc. Okay. Now, I was also curious about the progress on asset sales. So I think you mentioned for, I know that you

guys have some larger facilities, Saratoga, I think and around Effingham, Illinois. Those two facilities – can you update us on where you are in the sales process there and what you think the time line might be for wrapping

those up in the four kind of and what the four properties are specifically that you're talking about?



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Joel Quadracci

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

Yes. We have – we have four properties for sale, two buildings located in Effingham, Illinois, one in Sacramento, California, and one the largest one in Saratoga Springs, New York. Those sales are all in process. It's always hard to guess on the timing right about when this will come through. A lot of things have to come together. I feel pretty certain that some of these are going to go into 2025 Barton. But I'll also add that to achieve our debt leverage range of 1.8, we wouldn't need any of these properties to sell for us to believe we can achieve that approximately 1.8 that leverage ratio. So if something does, it serves as benefit.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Okay. I understand that could be a benefit. But what there is obviously some questions, I think, about just the broader real estate market, given interest rates. How would you describe kind of the activity and the level of interest around these properties at this point?

Joel Quadracci

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

It can differ based on the respective geographies, is what we're seeing at this point. So we have interest in some and in others not, a lot less interest.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Okay. But you still have confidence that there is resolution for all four of these sometime in the next several months by 2025? Or is it possible that maybe one of them doesn't get sold and you pull it back.

Joel Quadracci

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

We would expect to eventually sell these properties.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

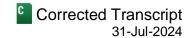
Okay. All right. And in terms of the competitive environment, I know that there's, you guys are facing pressures. Your competitors in printing are facing pressures. How would you describe the competitive environment right now in terms of price competitiveness or even just staying in the game? Or potentially, some pullback? What are you seeing at this point? What do you expect to play out?

Joel Quadracci

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

Well, we referenced some segment share games that were pretty significant. I think that kind of speaks for itself on part of it. But I'd also say with as these postal rates continue to do what they do, it's harder and harder. If you don't have the scale, it's very hard to help your clients offset it. And in our side, close to 10% of the post office's marketing volume comes out of our clients, which is significant, which has helped us be able to go to the next level with fusion mail, where it's another cost saving way for our clients to get in the mail. And not insignificant, I mean, the offsetting to the recent increases is somewhere between 10% and 25%, depending on the client. And that's their biggest cost. So I'd say that we feel very comfortable with where we are competitively against much of the industry. And I'd say that, that also shows up in how we're able to get paid for what we do.

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Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

And on the on the agency side of the house, where we feel good about our momentum and how we're building a solution that targets the needs of the marketer wrapped with data analytics and client tech we're able to bring print as one media channel, but also multiple other media channels to serve the clients need.

Joel Quadracci

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

And that's a good point, Tony, because that then speaks to the new competitive set that we have, which is really kind of big holding company agencies and other agencies. And again, we have a unique value proposition where we can pull execution together with the advisory services and content creation and media placement that we do.

Barton Crockett

Analyst, Rosenblatt Securities, Inc.

Okay. All right. Thank you, guys. I'll leave it there. I appreciate it.

Anthony C. Staniak

Chief Financial Officer, Quad/Graphics, Inc.

Thank you, Barton.

Joel Quadracci

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

Thanks Barton.

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

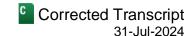
Chairman, President & Chief Executive Officer, Quad/Graphics, Inc.

Well, thank you, everyone, for joining today's call. I want to close by reiterating that our integrated marketing offering continues to be a competitive differentiator and a key driver behind our ongoing evolution as a marketing experience 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. We look forward to speaking with you again next quarter.

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

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