



MFIF

Minutemen Fixed Income Fund

Deluxe Corporation Inc. (NYSE: DLX)

Analyst: AJ Barrett

Investment Thesis

We recommend a market overweight position on Deluxe Corporation’s 8.125% 2029 first lien senior secured notes. Deluxe Corp. is a modern payment and data company headquartered in Minneapolis, Minnesota. The company’s legacy printing business segment accounted for 57% of its revenue in 2024 but over the past decade, management has strategically transitioned the company to invest in and focus on digital payment and data solutions. We believe that the market is underestimating the impact of DLX’s expansion into the digital payment and data business segments. After dealing with higher-than-expected initial transition costs, Deluxe is positioned well to leverage revenue from the declining legacy print business to reinvest into digitalization. The market is skeptical of Deluxe’s ability to generate free cash flow while transitioning the company’s main revenue streams away from legacy print, but we believe that management’s current approach to achieving operational efficiencies and free cash flow generation to service its outstanding debt through the North Star Initiative will be successful and is not currently priced into the market. For these reasons we believe that by their maturity date in 2029, DLX’s 8.125% senior secured notes will tighten by ~80-100 bps by maturity for an annualized return of 7.50%.

Security Data

Bond Maturity: 09/15/2029
Rating: Ba3/B
Rank: First lien senior secured
Price: \$101.29
Yield-to-worst: 7.61%
Coupon: 8.125%
OAS: 350.5 bps
CUSIP: 248019AW1

Figure 1: Capitalization Table

Deluxe Corporation Capitalization Table										
	12/31/24	2/26/24	Market	Interest Rate	Cash Interest	YTW	OAS	Maturity	Debt / EBITDA	
	Face	Price							FY23A	FY24A
Cash & Cash Equivalents	\$34,399.0									
First Lien Secured Loans										
DLX Revolver 1L A	209,000			7.20%	\$15,048.0			2/1/29		
DLX Revolver 1L B	80,000									
DLX TL A	495,150	99.88	\$494,556	7.17%	\$35,522			2/1/29		
First Lien Secured Bonds										
Notes due 2029	450,000.00	101.23	\$455,535	8.125%	\$36,563	7.7%	351.0			
Total First Lien Debt										
	\$1,234,150.0		\$950,091		\$87,133				3.68x	3.38x
Total Net First Lien Debt	1199751.0		\$915,692							
Senior Unsecured Bonds										
Notes due 2029	475,000.00	93.99	\$446,453	8.000%	\$38,000	9.7%	564.5			
Total Debt										
	\$1,709,150.0		\$1,396,543.3		\$125,132.6				5.10x	4.68x
Total Net Debt	1,674,751.0		1,362,144.3							
Earnings:										
FY23A EBITDA	\$335,145.0		Pricing Date	3/4/25						
FY24E EBITDA	\$365,322.0		SOFR	4.33%						

Source: Company Filings, Bloomberg

Contents

- 1 Investment Thesis
- 2 Company & Industry Overview
- 3 Investment Rationale & Catalysts
- 4 Relative Valuation
- 5 Risks to Thesis
- 6 Summary Model

Company Overview

Deluxe Corp. (DLX) is a trusted payment and data company founded in St. Paul, Minnesota. The company operates across four main business segments: Merchant Services, B2B Payments, Data Solutions, and Print. The print segment made up nearly 57% of the company's total revenue in 2024 while the other three segments combined accounted for the remaining 43%. The company has a strong presence in North America and in 2025 will celebrate its 110-year anniversary. Having operated in the commercial printing industry for over a century, the company has built a strong and loyal customer base and currently serves over 3 million small to mid-sized businesses and over 4,000 financial institutions. Since 2021, the company has strategically focused on leveraging cash flows and customer relationships from the declining print business to fuel organic growth in its digital segments while divesting from non-strategic businesses that don't align with the company's forward looking goals.

Industry Overview

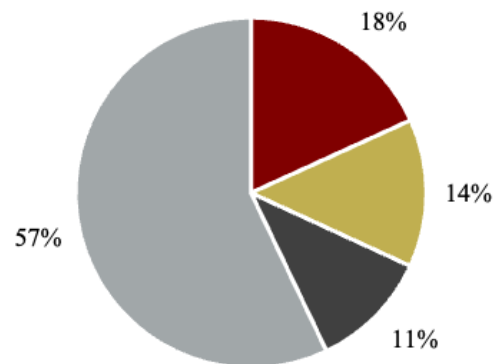
Deluxe's different business segments operate within two main industries: Financial Technology and Commercial Printing. The digital segments operate mostly within the financial technology industry which offers digital financial services to businesses, consumers, and financial institutions through the internet. DLX's recent emergence in the industry is relatively similar to competitors such as NRC Voyix Corp. However, Deluxe's longstanding customer base and cross-selling capabilities have helped it maintain a competitive advantage entering the new industry. Fintech has seen strong growth in recent years due to check and cash usage declining in addition to an increase in digitalization with revenues expected to grow at a CAGR of 12.31% through 2032. The company's legacy print segment operates in the commercial printing industry which offers business forms, promotional products, and most notable for Deluxe, checks. DLX remains a leader in the check printing industry which although has seen a slight bounce back post-COVID, the industry has still seen declines in revenue at a CAGR of -3.6% over the past five years and is anticipated to see continuous secular declines due to increased world-wide digitalization.

Investment Rationale & Catalysts

Strategic Expansion in Digital Payment and Data Business Segments

Deluxe's expansion into the financial technology service industry through its digital payment and data solution business segments is crucial to the company's ability to continually generate organic revenue growth. In Q2 2021, Deluxe acquired First American Payment Systems for \$960 million in cash. First American Payment deals with digital, mobile, and in-store purchase processing which falls into Deluxe's merchant service business segment. With each B2C and B2B transaction that comes from this deal, Deluxe profits from fees attached to each digital in-store and mobile payment transaction. This acquisition also allowed for increased cross-selling of Deluxe's new merchant services to already existing customers. From this acquisition, Deluxe was able to solidify itself as a modern payment company and diversify its revenue streams away from solely its legacy check printing segment. Already the company processes about \$3.1 trillion annually or roughly 15% of the US GDP and is positioned well to benefit from strong industry tailwinds as cash usage continues to decline and digital payment transactions increase. Deluxe has continued to profit from this acquisition by continuing to innovate in the merchant services segment by offering tap to pay on iPhones for US customers in Q1 2025. This new offering will allow for substantial fee revenue increases as tap-to-pay makes up just over 50% of in-person payment transactions in the US. The company's FY25 guidance expects mid-single digit growth in the first two quarters due to lingering onboarding costs being followed by stronger growth of around 5-7% in the back half of the year that is expected to continue going forward.

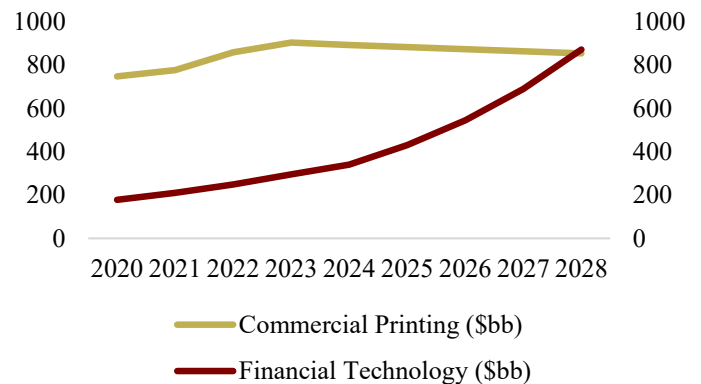
Figure 2: Revenue Breakdown by Segment



■ Merchant Services ■ B2B Payments ■ Data Solutions ■ Print

Sources: Company Filings

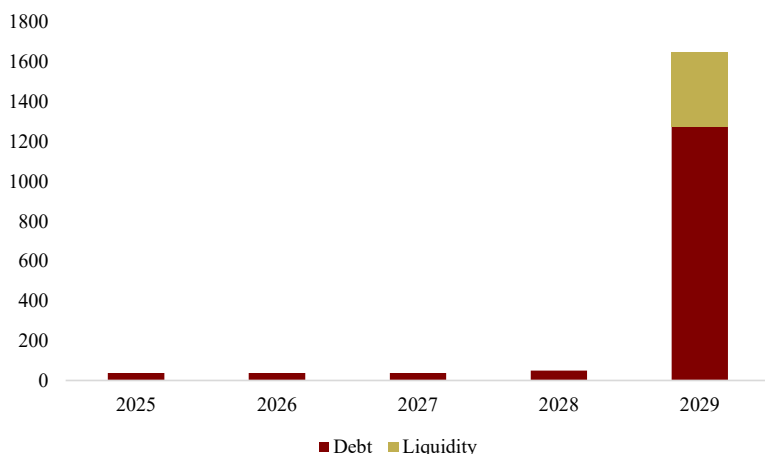
Figure 3: US Financial Technology and Commercial Printing Industry Valuation



Sources: Statista, IBIS World

In the data segment, Deluxe has seen strong growth in its data-driven marketing services which consist of collecting consumer data and selling it to advertisers to support their advertising campaigns for specific products. By moving its entire data set to the cloud in 2024, the company has been able to reduce costs and improve efficiency which was reflected in the 10% increase in the segment's revenue YoY in FY24 compared to FY23. Guidance for this segment is expected to see continued expansion going forward reflected by the company's prediction of high-single digit growth in FY25 of around 7-9%. In addition to this, we believe that Deluxe's digitalization of its B2B Payments segment which consists of SaaS e-check processing, lockbox services, fraud detection, and invoice processing, will grow as a result of its transition to subscription-based offerings that will lead to a recurring revenue model allowing for stable revenue growth in the coming years. This prediction aligns with the B2B segments initial decline in the first half of FY24 but eventual bounce back in the back half that will continue into FY25 with guidance expecting mid-single digit growth in line with Merchant Services. We believe that Deluxe's expansion and investment into these business segments is undervalued by the market because initial restructuring and integration costs associated with entering these segments are starting to become realized and end, positioning the company to see better profitability and enable further cross-selling capabilities in coming years.

Figure 4: Debt Distribution (in \$mm)

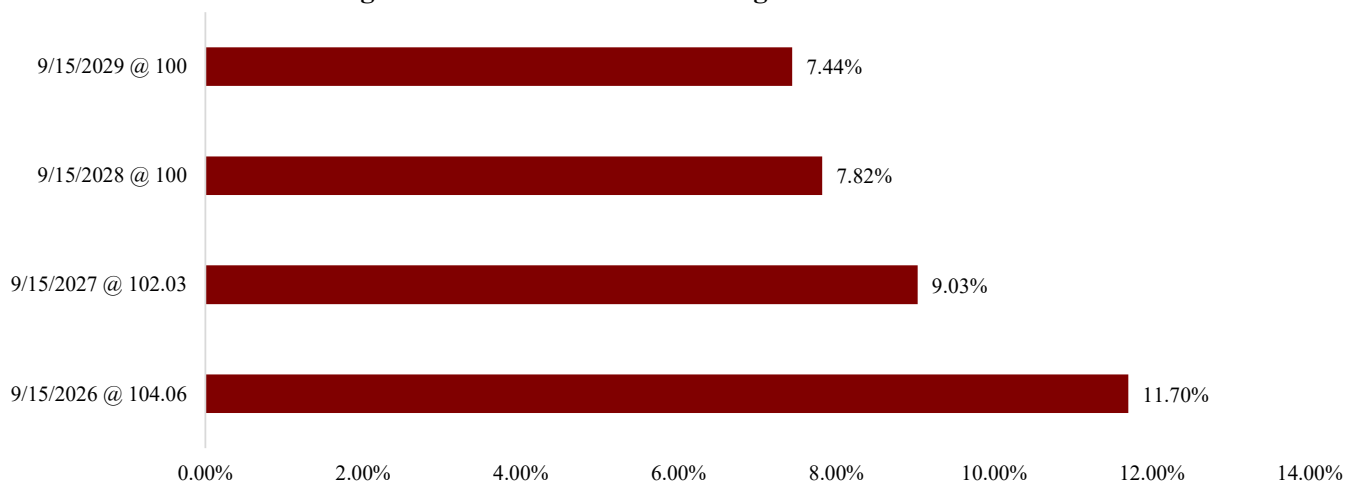


Source: Bloomberg

Deluxe's Commitment to Deleveraging Balance Sheet and Promoting Operational Efficiency Through North Star Program

In 2023, Deluxe announced its North Star Initiative, a long-term strategic plan to promote organic growth in its payment and data businesses, deleverage its balance sheet, and maintain capital allocation discipline. So far, the company has made great progress across key goals outlined by the initiative which were to increase both EBITDA and Free Cash Flow incrementally by \$80 million and \$100 million respectively by year end 2026, reach a leverage ratio of 3x, reduce Selling General & Administrative expenses by 15% to 20%, and maintain a \$0.30 dividend per quarter. In FY24, Deluxe reported that more than 80% of the tasks associated with achieving North Star's goals had been completed. This year, the company was able to decrease SG&A expense by \$26 million or nearly 14% and achieved a leverage ratio of 3.6x, reducing net debt by 52 million showcasing the company's dedication and ability to achieve the goals it set for itself in 2023. In December, Deluxe offered \$450 million in senior secured notes that mature in 2029 leading 61% of its debt to have a fixed interest rate of 8.1% and pushing back the repayment date of the debt used to finance its acquisition of First American Payment Systems in 2021. Should the interest rate environment lower, Deluxe could potentially benefit from refinancing its current outstanding notes to pay lower interest rates than the current 8-8.125%. Should Deluxe decide to refinance its debt again, the 8.125% notes feature attractive call prices annually until 2029 providing high average annualized returns. Deluxe has also been focusing on operational efficiencies divesting from and exiting non-strategic businesses such as its webhosting and logo-design services which will allow for more resources and time to be allocated to more profitable business segments such as payments and data. Despite divestments accounting for \$45 million in revenue loss in FY24, they will ultimately boost efficiency and lead to enhanced profitability in the long-term. The company has also continued to pay its \$0.30 dividend which remains one of its highest capital allocation priorities, having paid dividends for the past 30 years consecutively. The market is unsure of Deluxe's ability to smoothly transition into a modern payment and data company while still generating strong free cash flow, but we believe that through 2026 and beyond, the North Star Initiative will allow for DLX to continue to commit to its capital allocation priorities of responsible growth investments, debt reduction, and dividend payments.

Figure 5: Call Schedule vs. Average Annualized Return



Relative Valuation

DLX's 2029 notes are currently trading at an OAS of 351 bps, significantly wider than competitors in its sector like Acco Brands (ACCO), Pitney Bowes Inc. (PIB), and NCR Voyix Corp. (VYX). We believe that they have the potential to tighten by ~80-100 bps due to management's commitment to improving DLX's already comparably strong financial performances across the board.

Deluxe's closest high-yield competitor is Pitney Bowes, another company that used to deal with legacy print and mail related solutions and is undergoing a similar digital transformation. Since 2020, the company has experienced bumpy performance in its new e-commerce business segments reflected in a 5% decline in revenue in its SendTech solutions segment in Q4 24 compared to Q4 23. DLX boasts a significantly larger EBITDA Margin contributing to its lower leverage ratio at 3.60x in comparison to PIB's 6.38x. DLX's LTM EBITDA/Interest ratio of 3.62x is also much more attractive than PIB's 1.68x indicating that it is far more capable of fulfilling interest payment obligations while still providing a greater yield.

In comparison to a less levered competitor like ACCO, who focuses on manufacturing traditional print and office supplies, we believe that DLX still presents greater return in comparison to the marginally greater risk due to its comparable metrics and strategic management foresight. In addition to DLX's strong LTM Adj. EBITDA of \$446 million compared to ACCO's \$244 million, management's decision to transition the business into a growing digital industry rather staying in a declining legacy industry like ACCO reflects the company's strategic forward-looking planning. As DLX continues to pay off debt and realize higher profitability from its new business segments, we believe its notes will begin to trade tighter and closer to its comparable peers.

DLX's notes also offer the most opportunity with the highest spread to turn of leverage ratio at 91 bps due to their high OAS. Additionally, the first lien senior secured ranking in the capital structure holds higher priority over DLX's other unsecured notes also maturing in 2029.

Given the expected growth, strong comparable credit metrics, and structural positioning of the 2029 notes, we believe that now is the right time to invest.

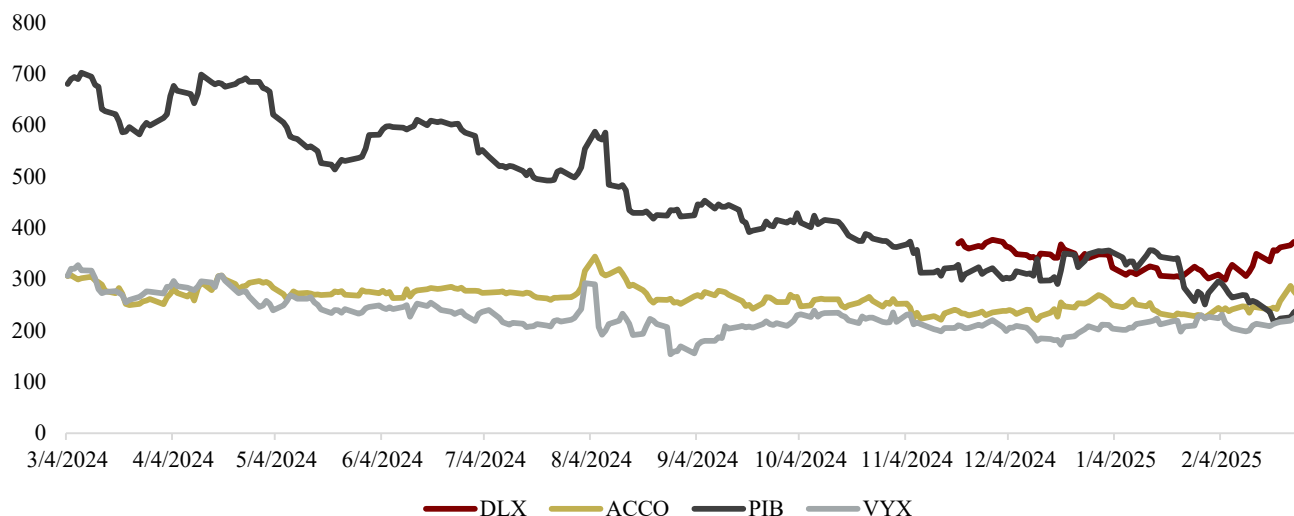
Figure 6: Comparable Company Analysis

Comps (USD in Millions)	DLX	ACCO	PIB	VYX
Market Cap	686	464	1,588	1,443
Debt	1,640	1,003	2,256	1,608
Net Debt	1,606	950	1,914	884
Enterprise Value	2,309	1,364	3,268	2,725
Revenue (LTM)	2,122	1,707	2,639	3,131
Adj. EBITDA (LTM)	446	244	300	454
Debt/EBITDA	3.68x	4.11x	7.52x	3.54x
EBITDA Margin	21.0%	14.3%	11.4%	22.4%
Net Debt/Est. EBITDA	3.60x	3.90x	6.38x	1.95x
EBITDA/Interest	3.62x	5.19x	1.68x	3.63x
FCF	100	141	85	(162)
Debt/FCF	16.42x	7.13x	26.48x	-9.93x
Individual Securities	DLX	ACCO	PIB	VYX
Rating	B	B+	B+	B+
Coupon	8.125%	4.250%	7.250%	5.125%
Maturity	9/15/2029	3/15/2029	3/15/2029	4/15/2029
Price	101.29	92.27	101.07	96.30
YTW	7.61%	6.46%	6.68%	6.15%
OAS	351	242	223	197
Next Call Date	9/15/2026	2/25/2029	2/22/2025	3/31/2025
Spread/Turn of Leverage	95.3 bps	58.8 bps	29.6 bps	55.7 bps

Risks to Thesis

- If Deluxe were unable to successfully offset declines in print revenue with payment and data solution
- If the consumer spending decreases due to macroeconomic tailwinds, topline revenue growth could decline
- If free cash flow generation isn't sufficient to service or refinance the large portion of debt maturing in 2029

Figure 7: LTM Comparables OAS (bps)



Sources: Bloomberg

Summary Model

Financial Statement Model for Deluxe Corp (in thousands)													
Fiscal Year	FY22A	FY23A	1Q24A	2Q24A	3Q24A	4Q24A	1Q25A	2Q25E	3Q25E	4Q25E	FY25E	FY26E	FY27E
EOP Date	12/31/2022	12/31/2023	3/31/2024	6/30/2024	9/30/2024	12/31/2024	3/31/2025	6/30/2025	9/30/2025	12/31/2025	12/31/2025	8/2/2026	8/2/2027
Income Statement													
Revenues													
Product Revenue	1,286,197	1,257,600	300,312	309,225	298,693	297,144	292,619	289,601	286,631	283,707	1,152,558	1,089,487	1,007,706
P/P		-2%		3%	-3%	-1%	-2%	-1%	-1%	-1%		-5%	-8%
Service Revenue	951,813	934,660	234,643	228,591	229,751	223,402	233,441	242,418	251,814	261,651	989,324	1,165,764	1,400,876
P/P		-2%		-3%	1%	-3%	4%	4%	4%	4%		18%	20%
Total Revenues	2,238,010	2,192,260	534,955	537,816	528,444	520,546	526,061	532,020	538,444	545,357	2,141,882	2,255,251	2,408,582
Cost of Revenues	(1,032,116)	(1,029,577)	(251,418)	(249,026)	(246,577)	(248,290)	(241,988)	(244,729)	(247,684)	(250,864)	(985,266)	(1,037,415)	(1,107,948)
as % of revenue	46%	47%	47%	46%	47%	48%	46%	46%	46%	46%	46%	46%	46%
Operating expenses													
Selling, General, & Administration	(993,250)	(956,068)	(234,093)	(233,818)	(227,764)	(213,493)	(209,568)	(211,942)	(214,501)	(217,255)	(853,267)	(858,963)	(875,212)
as % of revenue	44%	44%	44%	43%	43%	41%	40%	40%	40%	40%	40%	38%	36%
Restructuring and integration expense	(62,529)	(78,245)	(13,804)	(11,064)	(11,031)	(12,671)	(10,731)	(10,852)	(10,983)	(11,124)	(43,690)	(40,365)	(37,088)
as % of revenue	3%	4%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Asset impairment charge	-	-	-	-	(6,700)	(1,043)	(3,872)	(3,872)	(3,872)	(3,872)	(15,486)	(15,486)	(15,486)
as % of revenue	0%	0%	0%	0%	1%	0%	1%	1%	1%	1%	1%	1%	1%
Gain on sale of businesses and long-lived assets	19,331	32,421	8,581	15,401	5,208	2,017	2,017	2,017	2,017	2,017	8,068	8,068	8,068
as % of revenue	1%	1%	2%	3%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Total operating expenses	(1,036,448)	(1,001,892)	(239,316)	(229,481)	(240,287)	(225,190)	(222,153)	(224,649)	(227,339)	(230,234)	(904,375)	(906,746)	(919,178)
as % of revenue	46%	46%	45%	43%	45%	43%	42%	42%	42%	42%	42%	40%	38%
EBIT	169,446	160,791	44,221	59,309	41,580	47,066	61,920	62,642	63,421	64,259	252,241	311,090	380,916
(+) Depreciation & amortization	172,552	169,703	41,747	41,692	44,277	37,828	42,765	43,249	43,771	44,333	174,119	183,335	195,800
EBITDA	341,998	330,494	85,968	101,001	85,857	84,894	104,684	105,891	107,192	108,592	426,360	494,425	576,716
(+) Stock based compensation	23,676	20,525	5,121	5,009	4,842	4,972	-	-	-	-	-	-	-
Adj. EBITDA	365,674	351,019	91,089	106,010	90,699	89,866	104,684	105,891	107,192	108,592	426,360	494,425	576,716
Balance Sheet Summary													
Cash and Cash Equivalents	40,435	71,962	23,544	23,077	41,307	34,399	49,958	71,417	109,197	133,189	133,189	308,824	556,937
Accounts Receivable	206,617	191,005	171,269	175,170	172,260	174,076	175,920	177,913	180,061	182,373	182,373	192,721	207,247
Total Current Assets	704,037	760,988	430,210	391,373	392,637	611,639	408,177	431,466	471,438	497,839	497,839	685,794	951,102
PP&E, net	124,894	116,539	111,094	112,393	110,623	111,587	92,222	72,637	52,816	32,741	32,741	(58,172)	(163,696)
Total Assets	3,076,520	3,080,622	2,728,596	2,666,306	2,622,917	2,831,036	2,608,209	2,611,914	2,632,064	2,638,389	2,638,389	2,735,432	2,895,216
Total Debt	1,572,528	1,506,698	1,538,543	1,514,852	1,459,613	1,466,021	1,508,347	1,508,347	1,508,347	1,508,347	1,508,347	1,508,347	1,508,347
Net Debt	1,532,093	1,434,736	1,514,999	1,491,775	1,418,306	1,431,622	1,458,389	1,436,930	1,399,150	1,375,158	1,375,158	1,199,523	951,410
Total Liabilities	2,472,296	2,476,006	2,120,204	2,045,830	2,010,232	2,210,118	1,969,069	1,968,774	1,969,531	1,970,782	1,970,782	1,980,207	1,991,073
Cash Flow Summary													
Net Income (loss)	65,530	58,630	10,830	20,497	8,969	12,649	31,774	17,416	32,854	18,579	100,622	142,078	204,095
Changes in Working Capital	(5,130)	(9,769)	43,664	1,412	(22,116)	21,240	78,856	24,001	39,788	25,974	168,619	179,317	253,623
Cash Flow from Operations	191,531	198,367	26,590	39,632	67,900	60,159	46,899	58,540	75,192	61,754	242,384	322,518	393,566
Capex	(104,598)	(100,747)	(20,442)	(28,184)	(21,151)	(24,612)	(23,400)	(23,665)	(23,950)	(24,258)	(95,273)	(92,422)	(90,276)
Cash Flow from Investing	(80,325)	(43,305)	(20,558)	(23,380)	(7,385)	(18,519)	(23,400)	(23,665)	(23,950)	(24,258)	(95,273)	(92,422)	(90,276)
Dividends	(52,647)	(53,325)	(13,956)	(13,513)	(13,357)	(13,329)	(13,373)	(13,416)	(13,460)	(13,504)	(53,754)	(54,461)	(55,177)
Share Repurchases	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow from Financing	(48,601)	(37,679)	(326,579)	(72,030)	(53,472)	184,826	(7,941)	(13,416)	(13,460)	(13,504)	(48,322)	(54,461)	(55,177)
Net Change in Cash	51,924	120,618	(320,547)	(55,778)	7,043	226,466	15,559	21,459	37,781	23,992	98,790	175,635	248,113
FCF Reconciliation													
(+)NOPAT	28,429	(48,231)	(6,059)	7,162	(7,945)	(5,684)	31,700	(3,279)	33,211	(1,651)	59,981	118,019	217,626
(+) D&A	172,552	169,703	41,747	41,692	44,277	37,828	42,765	43,249	43,771	44,333	174,119	183,335	195,800
(-) Capex	(104,598)	(100,747)	(20,442)	(28,184)	(21,151)	(24,612)	(23,400)	(23,665)	(23,950)	(24,258)	(95,273)	(92,422)	(90,276)
(-) Change in Working Capital	-	(9,769)	43,664	1,412	(22,116)	21,240	78,856	24,001	39,788	25,974	168,619	179,317	253,623
Free Cash Flow to Firm	96,383	126,956	58,910	7,758	37,297	28,772	19,008	39,634	61,145	40,966	160,753	214,459	250,077
Operating Metrics													
Operating Margin	7.6%	7.3%	8.3%	11.0%	7.9%	9.0%	11.8%	11.8%	11.8%	11.8%	11.8%	13.8%	15.8%
Adj. EBITDA Margin	16.3%	16.0%	17.0%	19.7%	17.2%	17.3%	19.9%	19.9%	19.9%	19.9%	19.9%	21.9%	23.9%
FCF Margin	4.3%	5.8%	11.0%	1.4%	7.1%	5.5%	3.6%	7.4%	11.4%	7.5%	7.5%	9.5%	10.4%
Credit Metrics													
Net Debt/Adj. EBITDA	4.2x	4.1x	16.6x	14.1x	15.6x	15.9x	13.9x	13.6x	13.1x	12.7x	3.2x	2.4x	1.6x
Net Debt/FCF	15.9x	11.3x	25.7x	192.3x	38.0x	49.8x	76.7x	36.3x	22.9x	33.6x	8.6x	5.6x	3.8x
Adj. EBITDA/Interest	3.9x	2.8x	3.0x	3.5x	3.0x	2.8x	5.7x	2.7x	5.9x	2.7x	3.7x	4.3x	5.9x
FCF/Interest	1.0x	1.0x	1.9x	0.3x	1.2x	0.9x	1.0x	1.0x	3.3x	1.0x	1.4x	1.9x	2.6x