

# **Deluxe Corporation**

**Fourth Quarter 2008**

**Analyst Teleconference**

**January 22, 2009**



# **Terry Peterson**

## **Vice President, Investor Relations and Chief Accounting Officer**



# Today's Presenters

**Terry Peterson**

Vice President, Investor Relations  
and Chief Accounting Officer

**Lee Schram**

Chief Executive Officer

**Rick Greene**

Senior Vice President and  
Chief Financial Officer



# Cautionary Statement

Comments made today regarding financial estimates and projections and any other statements addressing management's intentions and expectations regarding the company's future performance are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, these comments are subject to risks and uncertainties, which could cause actual results to differ materially from those projected. Additional information about various factors that could cause actual results to differ from those projected, are contained in the news release that we issued this morning and in the company's Form 10-K for the year ended December 31, 2007, as updated in the company's Form 10-Q for the quarter ended September 30, 2008.

In addition, the financial and statistical information that will be reviewed during this call is addressed in greater detail in today's press release, which is posted in the investor relations section of our website, [www.deluxe.com](http://www.deluxe.com), and was furnished to the SEC on the Form 8-K filed this morning. In particular, any non-GAAP financial measures are reconciled to the comparable GAAP financial measures in the press release.

# Lee Schram

## Chief Executive Officer



# Fourth Quarter 2008 Highlights

- Met our adjusted EPS outlook and significantly expanded our cost reduction program despite difficult economy
- Focus on core check businesses, extending contracts and further stabilizing margins
- Best quarter ever on new non-check revenue
- Expanded our cost reduction initiative to \$300 million aggressively reduce costs and expenses
- Continue to invest in our future with progress in many revenue growth initiatives

**We are prudently managing our company, closely monitoring the small business and financial institution markets, and focusing on strong free cash flow while offering a very attractive dividend as we continue to transform**

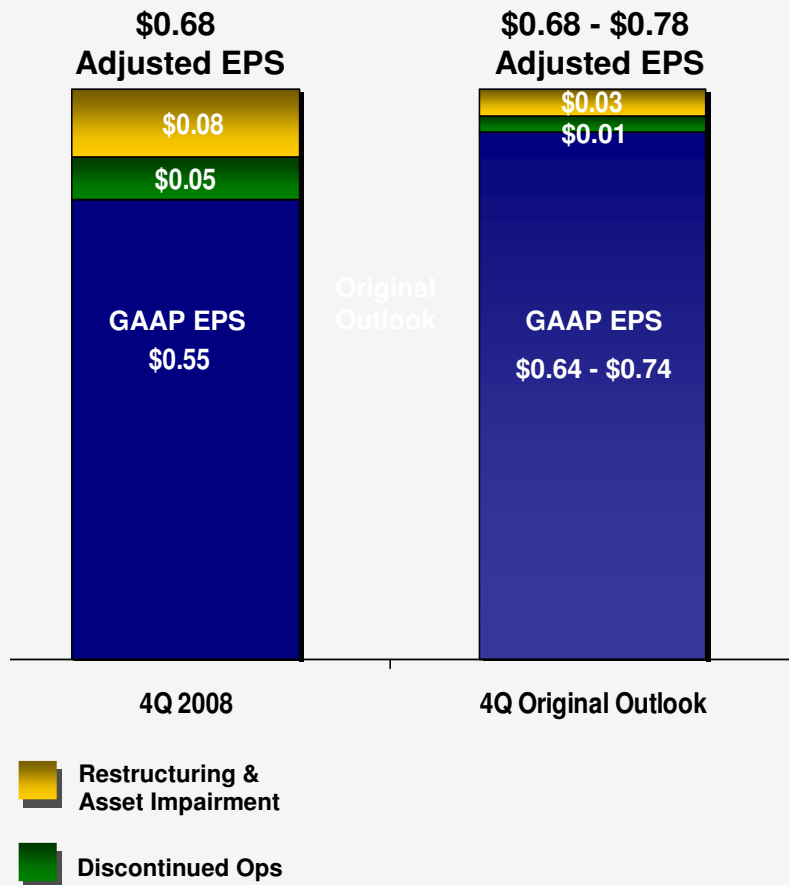
# **Rick Greene**

## **Chief Financial Officer**



# Q4 Results vs. Outlook

## EPS From Continuing Operations



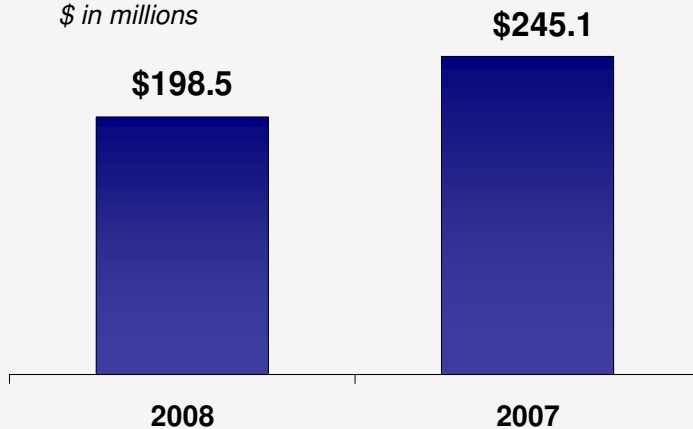
- Diluted EPS of \$0.55, Adjusted EPS of \$0.68
  - Discontinued Ops for Russell and Miller business includes a \$0.04 impairment loss
- Revenue of \$364.9 million
  - Below outlook due to greater than expected downturn in the economy
  - Reclassified \$3 million of revenue to discontinued operations with the decision to sell Russell and Miller
- Excluding impact of the restructuring charges, operating margins in line with expectations



# Results vs. Prior Year

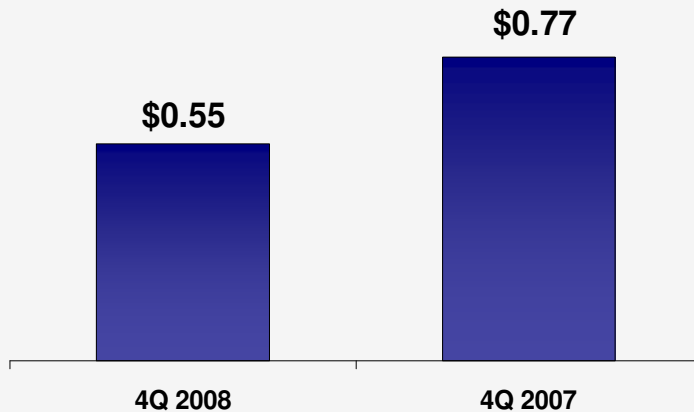
## Operating Cash Flow

\$ in millions



- Upper end of previous outlook
- Benefited from delay of approximately \$10 million of contract acquisition payments to 2009

## EPS - Diluted



- 2007 results included:
  - Higher revenue
  - Lower restructuring and asset charges
  - Partially offset by:
    - Higher performance-based compensation in 2007
    - Additional costs savings in 2008



# Q4 Results

## Consolidated Statements of Income

### Revenue

- Declined due to weak economy, primarily in Small Business Services
- Lower volume in personal check businesses
- Lower revenue per order in Financial Services

### Gross Margin

- Restructuring related charges reduced gross margin 0.7 points
- Lower revenue per order in Financial Services

### SG&A Expense

- Benefits from cost reduction initiatives
- Lower performance-based compensation

<i>\$ in millions</i>	2008	2007	Better/ (Worse)
Revenue	\$364.9	\$409.8	\$(44.9)
Gross Margin	62.6%	63.9%	(1.3) pts.
SG&A Expense	\$164.6 45.1%	\$188.1 45.9%	\$23.5 0.8 pts.
Restructuring and Asset Impairment	\$3.6 1.0%	\$2.7 0.7%	\$(0.9) (0.3) pts
Operating Income	\$60.4 16.6%	\$71.1 17.3%	\$(10.7) (0.7) pts.
Net Loss from Discontinued Ops *	\$(2.7)	\$(0.5)	\$(2.2)
Net Income	\$27.9	\$40.2	\$(12.3)

**Restructuring related costs and asset impairments of \$6.5 million reduced operating income**

\* Includes pre-tax impairment charge of \$3.4 million, or \$0.04 per share 10



# Q4 Results Business Segments

<i>\$ in millions</i>	2008	2007	Better/(Worse)
Revenue			
Small Business Services	\$218.7	\$247.2	\$(28.5)
Financial Services	102.3	112.9	(10.6)
Direct Checks	43.9	49.7	(5.8)
Operating Income			
Small Business Services	\$27.1	\$37.8	\$(10.7)
Financial Services	20.6	18.7	1.9
Direct Checks	12.7	14.6	(1.9)

## Small Business Services

## Financial Services

## Direct Checks

Revenue

- Economic softness, lower checks & forms, and an unfavorable Canadian exchange rate
- Partially offset by contributions from Hostopia acquisition & organic growth in fraud protection services

- Decline in check order volumes of 7.2%
- Lower revenue per order due to competitive pricing environment which more than offset the recent price increase

- Continued declines in check writing and a weak economy negatively impacting sales of additional products
- Partially offset by higher revenue per order from recent price increases

Op. Income

- Included \$3.7M of restructuring costs and an asset impairment charge
  - Reduced operating margin by 1.7points

- Included \$1.1M of restructuring costs
  - Reduced operating margin by 1.1 points
  - Excluding restructuring costs, operating margin was up 4.5 points from 2007

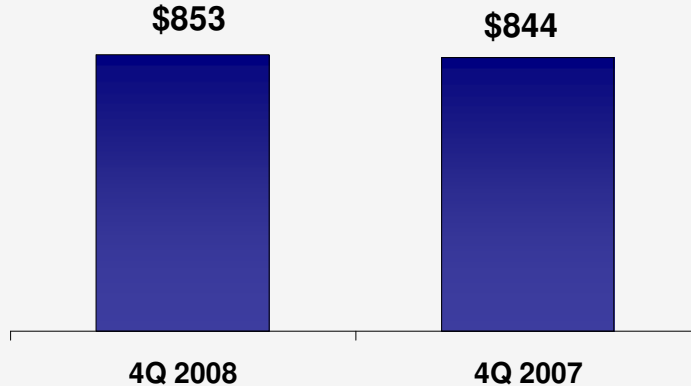
- Included \$1.7M of restructuring costs
  - Reduced operating margin by 3.9 points
  - Excluding restructuring costs, operating margin was up 3.2 points from 2007



# Results vs. Prior Year

## Total Debt

\$ in millions



- Up slightly, versus prior year-end

## Cash Provided By Operating Activities - YTD

\$ in millions



- Decrease due to a higher 2007 related incentive compensation payment earlier in 2008
- Lower earnings
- Partially offset by lower income tax payments and progress on working capital initiatives



# 2009 Full Year Outlook

**Revenue**

**\$1.3B  
to  
\$1.4B**

**EPS \***

**\$1.95  
to  
\$2.35**

**Op. Cash Flow**

**\$175M  
to  
\$200M**

**Factors**

### Small Business Services

#### Decline mid single to low double-digits

- Weak economy will drive declines in core businesses products
- Partially offset by eCommerce investment benefits & double-digit growth in business services offerings

### Financial Services

#### Check Order declines 6-7%

- Acceleration of check order declines assume continued turmoil in financial services industry
- Partially offset by non-check revenue stream contributors

### Direct Checks

#### Double-digit declines

- Check usage declines and weak economy negatively impacting sale of additional products

- Focused execution of our \$300M cost reduction initiative, net of investment
- Partially offset by increases in material and delivery costs as well as higher performance based compensation and significant increases in costs for employee and retiree medical costs
- Full year effective tax rate of approximately 35%

\* Excluding restructuring related costs of \$0.04

#### Continue to generate strong operating cash flows

- Lower earnings will be offset by continued progress on working capital initiatives and lower performance based incentive compensation payments in 2009
- Contract acquisition payments ~\$20; Cap Ex ~\$40M
- Depreciation & amortization ~\$70M (\$19M acquisition related)



# Q1 2009 Outlook

## Revenue



- The factors impacting full year outlook are also impacting Q1 2009
- Compared to 2008 one less business day in Q1 2009 accounts for nearly \$6 million of lower revenue

## Adjusted Diluted EPS



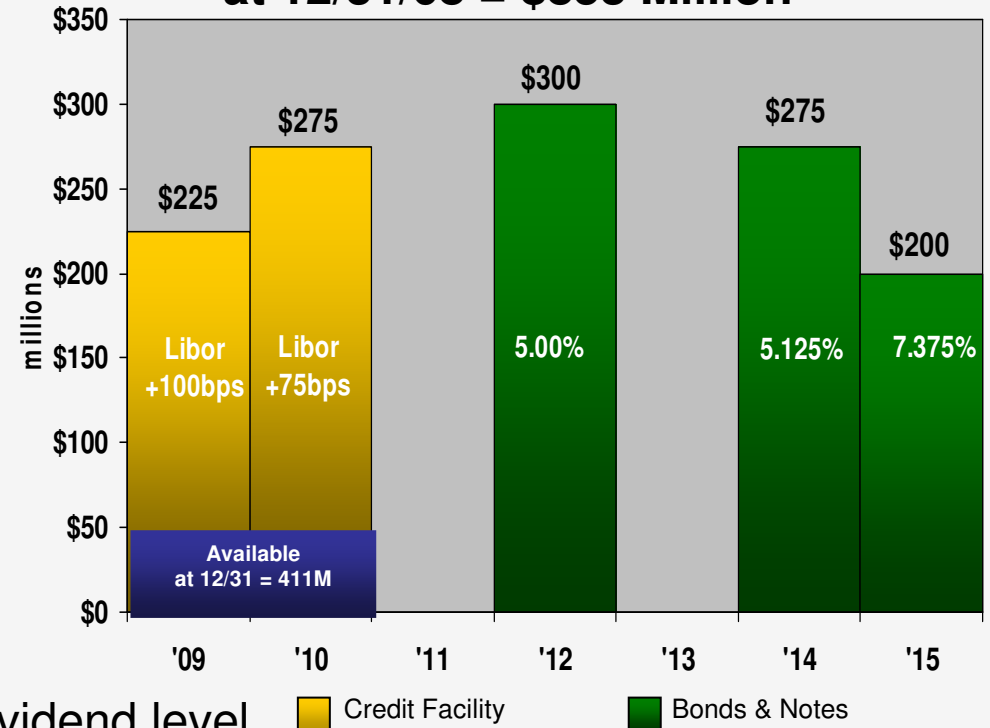
- Excludes restructure related costs of \$0.03



# Capital Structure Strategy

- Robust cash flows, strong balance sheet, reasonable access to capital
- Well above the 3 to 1 EBIT to interest coverage ratio; expect to remain in compliance
- Disciplined focus to capital deployment that balances investments to grow top line and debt repayment
- Focus will now shift from share repurchase to further reduce our debt
- We expect to maintain our current dividend level

## Debt Outstanding at 12/31/08 = \$853 Million



**We believe we are well positioned to not only weather the volatile capital markets, but also have the ability to take advantage of selective opportunities to deploy cash effectively**

# Lee Schram

## Chief Executive Officer



# 5 Key Focus Areas to Deliver Strategy

- ① **Financial Institutions**
  - Focus on our core check capabilities
  - Growth outside checks in helping FIs expand core deposits
- ② **Direct-to-Consumer**
  - Optimizing cash flow
- ③ **Small Business Core Products**
  - Enhanced eCommerce capabilities
  - Improved segmented customer focus
- ④ **Services for Small Businesses**
  - Grow business services including logo design, payroll, business networking, web hosting, and other web services
- ⑤ **Cost Reductions and Simplification**
  - Continue the solid work already underway on our expanded \$300M cost reduction initiative



# 2009 – What We Expect

- Our portfolio is becoming better positioned for sustainable future revenue growth opportunities by ...
  - Adding existing organic initiatives (eCommerce, loyalty, retention and fraud & security offers)
  - Growing business services
  - Continue to assess potential tuck-in acquisitions
- 2009 Revenue outlook
  - Given the weakened economy and still looming financial crisis we believe it is prudent for our 2009 revenue outlook to range from a decline of 10% to 5%
  - Diluted EPS declining in a range of roughly 20% to 5%
  - Upper end of outlook assumes the current economic trends do not improve throughout the year and we benefit only a modest amount on revenue initiatives
  - Lower end assumes considerable deterioration in the economy throughout the year



# Bridge Our Thinking

- Significant changes from 2008 to upper end of 2009 outlook:

*\$ in millions*

Margin related to revenue decline	\$(65)
Higher incentive compensation	\$(20)
Higher employee and retiree medical	\$(12)
Higher material and delivery costs	\$(12)
Margin improvement from cost reductions	\$90
Wage freeze	\$8

**Equates to Flat EPS  
at the top end of our outlook range  
excluding restructuring costs**



# Q4 Segment Update

## Small Business Services

- Economic softness continued to impact our business
- Shortfalls to Q4 outlook were primarily driven by holiday greeting cards, imaging, apparel, and retail packaging products
- Growth in payroll services, a continued ramp in EZ Shield™ check protection services and in logo design services and growth in eCommerce visitor traffic
- Significant growth in business networking members from PartnerUp, where we have nearly tripled our membership since its acquisition
- Solid growth in web services from Hostopia, where they grew at a double-digit rate year over year
- Russell & Miller retail packaging and signage business up for sale



# 2009 – What We Expect

## Small Business Services

- No improvement in weakened economy for the full year
- Focus on acquiring new customers for our core business products
- Increase our share of wallet through enhanced eCommerce capabilities and improved small business segment focus
- By early Q2 2009, we will have approximately 90% of our products and services on one eCommerce system allowing for better cross-sell, simplify ordering for our customers and better position our brand
- Expect strong double-digit growth in business services and believe there are opportunities to add more business services on the Hostopia unified technology platform



# Q4 Segment Update

## Financial Services

- Continued to proactively extend several check contracts. All large contract extended through 2009
- Strong new acquisition rates, especially in the credit union space
- Retention rates remained strong, in excess of 90%
- Continued to simplify our processes and take complexity out of the business while reducing our cost and expense structure
- Banking crisis had some negative impact on check orders
- Advanced new non-check revenue growth opportunities
- Grew revenue sequentially over the prior quarter and over last year in our non-check loyalty, retention and fraud monitoring and protection solutions



# 2009 – What We Expect Financial Services

- Expect check order declines to accelerate to around 6% to 7%
  - Due to turmoil in financial services industry and increases in electronic payments
- Expect to maintain our high retention rates and acquire new check customers
- Expect revenue contribution from non-check offers aimed at helping financial institutions grow core deposits
- Continue to simplify our processes and take complexity out of the business while reducing our cost and expense structure



# Q4 Segment Update

## Direct Checks

- Revenue in line with our expectations
- Another quarter of solid operating margin
  - 33%, excluding restructuring related items
- Continue to look for opportunities to provide accessories and other non-check products and services to our customers



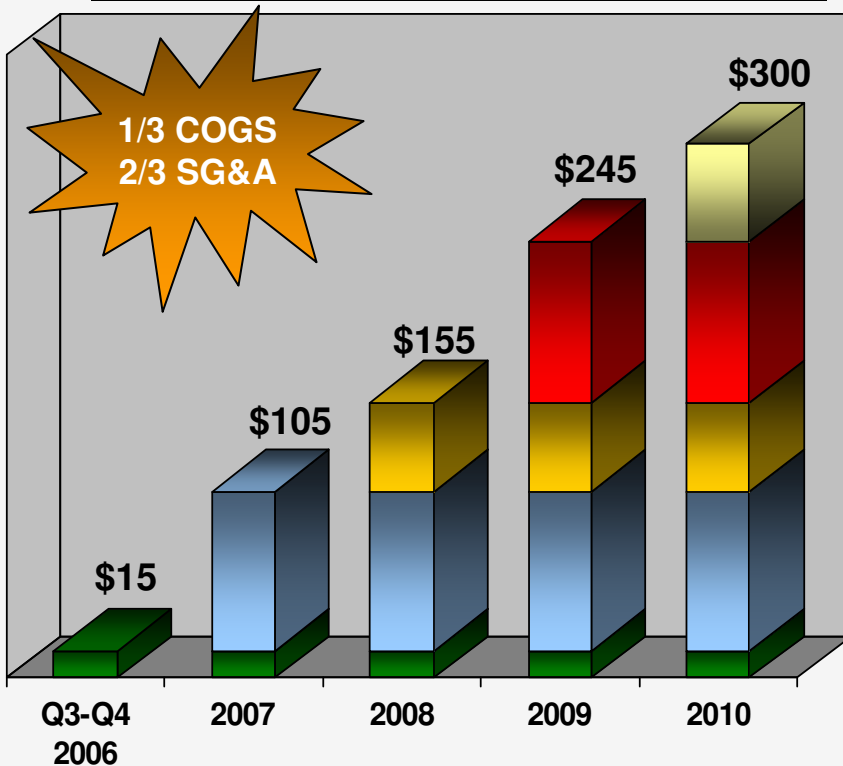
# 2009 – What We Expect

## Direct Checks

- Double-digit declines in revenue driven by consumer usage reduction in a continued weak economy
- Reduce manufacturing costs and lower SG&A and keep the operating margin within one to two points of 30%
- Generate strong cash flow

# Aggressive Cost Reduction Plan

## Cumulative Savings (\$ in millions)



**Another solid quarter – remain on track to deliver new target of \$300 million by 2010**

NOTE: Reductions not linear in 2009

### Go-to-Market (Selling, Marketing, Customer Care)

- Channel optimization
- Sales / Marketing operations
- Marketing and analytics integration
- Call center productivity
- Close Thorofare call center in Q1 2009

~ 40%

### Fulfillment (Manufacturing and Supply Chain)

- Manufacturing productivity / Lean
- Indirect spend
- Strategic supplier sourcing
- Finish automatic flat check packaging by end of 2009; introduce digital printer
- Freight / Spoilage reductions
- Close 5 additional sites; 3 at end of Q1 2009 and 2 in late 2009; 1 site closed in January

~ 30%

### Infrastructure (IT, Finance, HR, Legal, Real Estate)

- I/T infrastructure including data center reduction
- Outsourcing relationships
- Standardization & best practices
- Aligned Structures
- Real estate footprint reduction / utilization

~ 30%

Bold items represent greatest sources of savings to date



# Wrap-Up

- Challenging economy
- Progress in transforming Deluxe, but still have a lot of work and opportunities in 2009
- Strong progress on our cost reduction initiatives
- More revenue contributions from eCommerce, new business services and non-check revenue offers
- Better positioned portfolio to deliver sustainable longer-term growth opportunities
- Generate strong cash flows
- Attractive dividend

**Deluxe has demonstrated its value as a disciplined, stable company in these challenging economic times**

# Questions and Answers



# Replay of This Call

- Audio replay available through February 2<sup>nd</sup>
  - Dial: 888-286-8010
  - Access code: 82005908
- Presentation slides:
  - [www.deluxe.com/investors](http://www.deluxe.com/investors)