

Deluxe (NYSE: [DLX](#)) conducted its Q3-'18 Earnings Call this AM and the market obviously did not like it...shares of DLX have fallen **-10%+** today and are at a 52 week Low of 45-46. DLX is currently **down -41%** in value for 2018..

Below are some excerpts from Deluxe's Press Release (including important "segment" results) the full text of which you can access here: [PRESS RELEASE](#)

DELUXE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars and shares in millions, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,			
	2018 ⁽¹⁾	2017 ⁽²⁾		
Product revenue	\$1,076.1	\$1,097.8		
Service revenue	397.2	372.9		
Total revenue	1,473.3	1,470.7		
Cost of products	(400.6)	(392.5)	(27.2%)	(26.7%)
Cost of services	(175.9)	(159.3)	(11.9%)	(10.8%)
Total cost of revenue	(576.5)	(551.8)	(39.1%)	(37.5%)
Gross profit	896.8	918.9	60.9%	62.5%
Selling, general and administrative expense	(629.4)	(629.1)	(42.7%)	(42.8%)
Net restructuring charges	(12.9)	(3.7)	(0.9%)	(0.3%)
Asset impairment charges	(101.3)	(54.9)	(6.9%)	(3.7%)
Operating income	153.2	231.2	10.4%	15.7%
Interest expense	(18.9)	(15.8)	(1.3%)	(1.1%)
Other income	6.1	3.6	0.4%	0.2%
Income before income taxes	140.4	219.0	9.5%	14.9%
Income tax provision	(47.9)	(73.6)	(3.3%)	(5.0%)
Net income	\$92.5	\$145.4	6.3%	9.9%

DELUXE CORPORATION
SEGMENT INFORMATION

(In millions)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018 ⁽¹⁾	2017 ⁽²⁾	2018 ⁽¹⁾	2017 ⁽²⁾
Revenue:				
Small Business Services	\$315.6	\$306.4	\$949.6	\$917.4
Financial Services	146.8	157.4	426.7	446.0
Direct Checks	30.8	33.9	97.0	107.3
Total	<u>\$493.2</u>	<u>\$497.7</u>	<u>\$1,473.3</u>	<u>\$1,470.7</u>
Operating (loss) income:⁽³⁾				
Small Business Services	(\$45.3)	\$12.9	\$72.3	\$119.7
Financial Services	17.6	29.2	49.5	76.1
Direct Checks	10.4	11.3	31.4	35.4
Total	<u>(\$17.3)</u>	<u>\$53.4</u>	<u>\$153.2</u>	<u>\$231.2</u>
Operating margin:⁽³⁾				
Small Business Services	(14.4%)	4.2%	7.6%	13.0%
Financial Services	12.0%	18.6%	11.6%	17.1%
Direct Checks	33.8%	33.3%	32.4%	33.0%
Total	(3.5%)	10.7%	10.4%	15.7%

The segment information reported here was calculated utilizing the methodology outlined in the Condensed Notes to Unaudited Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

⁽¹⁾ Effective January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers*, and related amendments. Adoption of these standards resulted in a decrease in revenue of \$0.3 million and an immaterial impact on net income for the quarter ended September 30, 2018 and an increase in revenue of \$0.3 million and an increase in net income of \$0.9 million for the nine months ended September 30, 2018. We do not expect these standards to have a significant impact on our results of operations, financial position or cash flows on an ongoing basis.

⁽²⁾ Results have been revised to reflect the adoption of ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires that we revise prior periods to reclassify the net periodic benefit income related to our postretirement plans from cost of revenue and SG&A expense to other income. This revision had no impact on total revenue or net income.

⁽³⁾ Operating income includes the following restructuring, transaction and CEO transition costs, as well as asset impairment charges:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Small Business Services	\$101.9	\$47.6	\$108.4	\$57.5
Financial Services	4.9	0.8	11.8	2.9
Direct Checks	0.1	0.1	0.2	0.1
Total	<u>\$106.9</u>	<u>\$48.5</u>	<u>\$120.4</u>	<u>\$60.5</u>

The Dallas, TX-based Safeguard unit of Deluxe is housed within its "Small Business Services" segment. One of the analysts asked during Q&A what the "\$101.9MM impairment charge" in Q3 was for...the answer from Lee Schram was that it mostly related to Safeguard's "distributor" unit.

Deluxe is still a great company...a new CEO (the successor to Lee Schram) will be announced on November 6th.

Jim Anderson
Founder & Publisher