

COMPANY PROFILE

Deluxe Corporation

REFERENCE CODE: DC67BC51-E780-4299-9CFF-49DEAAA433AF
PUBLICATION DATE: 7 Jan 2016

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COMPANY OVERVIEW

Deluxe Corporation (Deluxe or “the company”) is a provider of payment solutions. The company offers a range of products and services including checks, logo design, website design, search marketing and email marketing to small businesses and financial institutions. The company primarily operates in the US where it is Shoreview, Minnesota and employed about 5,830 people as on December 31, 2014.

The company recorded revenues of \$1,674.1 million during the financial year ended December 2014 (FY2014), an increase of 5.6% over FY2013. The operating profit of the company was \$332.6 million in FY2014, an increase of 4.6% over FY2013. The net profit of the company was \$199.8 million in FY2014, an increase of 7% over FY2013.

KEY FACTS

Head Office	Deluxe Corporation 3680 Victoria Street North Shoreview Minnesota 55126 2966 USA
Phone	1 651 483 7111
Fax	
Web Address	http://www.deluxe.com
Revenue / turnover (USD Mn)	1,674.1
Financial Year End	December
Employees	5,830
New York Stock Exchange Ticker	DLX

SWOT ANALYSIS

Deluxe Corporation (Deluxe or “the company”) is a provider of payment solutions. The company offers a range of products and services including checks, logo design, website design, search marketing and email marketing to small businesses and financial institutions. The company's well established Small Business Services segment ensures access to a large customer base and higher revenue generation potential. However, intense competition may continue to put pricing pressure on the company thereby reducing its margins and market share.

Strengths	Weaknesses
Well established Small Business Services segment Robust customer base provides enhanced brand image Cost reduction initiatives	Geographic concentration Decline in check business market
Opportunities	Threats
Increasing online marketing spending Strategic acquisitions Strong growth in the US office services and supplies market	Intense competition Security breaches involving customer data may adversely impact its business Changing customer preferences

Strengths

Well established Small Business Services segment

The company's Small Business Services is well established. The segment is one of the leading providers of printed forms to small businesses, including deposit tickets, billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. It provides products and services to over 4.6 million small business customers. Over the last few years, the Small Business Services segment made significant investments to enhance and strengthen its portfolio of products and services, grow its distribution channel, enhance brand awareness and positioning that would enable it to attract new customers. The company enhanced its internet presence, increased average order value and conversion rates, won many new wholesale and major account customers, and served approximately 837,000 web hosting customers at the end of FY2014.

Further, the company enhanced its products and services offerings through significant partnerships and acquisitions that enabled Deluxe to expand its marketing solutions and other services offerings, including additional web services, web-to-print capabilities, internet marketing services and electronic

checks. The company's significant acquisitions that strengthened the company's product portfolio include Gift Box, a supplier of retail packaging solutions, including gift boxes, bows, ribbon and wraps; VerticalResponse, a provider of self-service marketing solutions for small businesses, including email marketing, social media, online event marketing, postcard marketing and on-line surveys; OrangeSoda, a provider of internet marketing services specializing in search, mobile and social media campaign strategies for small businesses; and PsPrint, a web-to-print solutions company that provides online print marketing and promotional services.

The strategy focused on marketing solutions and other service areas allows the company to improve the mix of higher growth areas to ensure sustainability. Well established Small Business Services segment ensures access to a large customer base and higher revenue generation potential.

Robust customer base provides enhanced brand image

The company has a robust customer base. Deluxe serves 4.6 million active small business customers. It also advises 5,600 financial institutions and served 837,000 web hosting customers in FY2014. In addition, the company has partnerships with leading national and international telecommunication brands. Some of Deluxe's customers in the Financial Services segment include Disney, Warner Brothers, Garfield, Harley-Davidson, NASCAR, PGA TOUR, Thomas Kinkade, Susan G. Komen for the Cure and National Arbor Day Foundation. In addition, the company has strategic partnerships with various organizations, including core technology firms, software and service providers, associations, financial institutions, and large corporations. These partnerships enable Deluxe to enhance its service offerings and meet the changing needs of its customers.

Robust customer base provides enhanced brand image to the company and serves as a competitive advantage over its peers in the industry. The customer base also allows the company to leverage growth opportunities while stabilizing its core products.

Cost reduction initiatives

The company has been pursuing cost reduction and business simplification initiatives in recent times. These include reducing shared services infrastructure costs; streamlining the call center and fulfillment activities; eliminating system and work stream redundancies; and strengthening its ability to quickly develop new products and services and bring them to market. As a part of the strategy, the company reduced stock-keeping units (SKUs), standardized products and services and improved the sourcing of third-party goods and services. As a result of these initiatives, the company realized net savings of approximately \$60 million in FY2014.

Further, the strategy also led to the increase in the profit margins. The operating profit of the company was \$332.6 million during FY2014, which grew at a compound annual growth rate (CAGR) of 5% during 2012-14. Similarly, the net profit of the company was \$199.8 million in FY2014, which grew at a CAGR of 8% during the same period. Deluxe's cost reduction initiatives enabled it to drive strong growth in its margins over the years, while its peers experienced losses.

The increase in the operating income in FY2014 was due to price increases, growth in distribution channel and in marketing solutions and other services revenues, and benefits driven from the cost reduction initiatives that include manufacturing and delivery efficiencies. Further, the operating profit margins of the individual segments also witnessed an increase primarily attributed to the cost reduction initiatives. The cost reduction initiatives enhanced the company's operating efficiencies and allowed it to generate higher profits as compared to its peers, which is expected to boost investor confidence and future growth avenues.

Weaknesses

Geographic concentration

Though the company has a strong market position in the US market, geographic concentration may limit the growth opportunities available to the company. The company generates a significant portion of its revenues from the US. In FY2014, the US accounted for approximately 95.2% of the company's revenues. The international markets accounted for approximately 4.8% of its revenues during the same period. The company's dependence on the US markets may expose the company to region specific risks. Overdependence on a single geographic region makes it susceptible to changes associated with the economic and political situation of the country. Concentrated operations could also make Deluxe uncompetitive against rivals who have globally diversified operations.

Decline in check business market

Deluxe has been witnessing a consistent decline in the revenues from the Direct Check business segment. The Direct Checks segment recorded revenues of \$176.4 million in FY2014, a decrease of 7.8% compared to FY2013, and declined at a compound annual rate of change (CARC) of 9% during 2012-14. Though the market for checks is one of the largest markets for the company, the check product is mature and its use has been declining. The company's revenues declined due to a reduction in orders stemming from the continued decline in check usage, as well as eliminating marketing investments that no longer meet the company's return criteria. The total number of checks written in the US declined over the years as a result of alternative payment methods, including credit cards, debit cards, direct deposit, wire transfers and internet-based bill paying services, as well as automated teller machines (ATMs). Further, according to the industry estimates, at the end of FY2014, debit card, credit card and ACH payments all exceeded the number of checks written in 2013.

The declining check business market would have a negative impact on the demand for company's products offered by Direct Check segment and would have an adverse effect on the revenues and business operations of Deluxe.

Opportunities

Increasing online marketing spending

The outlook for the global digital marketing spending is robust primarily driven by the increasing adoption of mobile phones, growing number of broadband connections, and the increasing usage of internet. According to industry estimates, spending on advertisements served to internet-connected devices including desktop and laptop computers, mobile phones and tablets is expected to reach \$656.3 billion by the end of 2018, at a CAGR of 5% during 2014-18. Digital advertisement spending is expected to account for one third of the overall advertisement spending globally.

Deluxe provides a suite of marketing solutions for small businesses. The company's small business segment offers marketing services including web design, hosting and other web services, logo design, search engine optimization and marketing. Further it also offers social media marketing, and digital printing services designed to fulfill the sales and marketing needs of small businesses. The company also strengthened its marketing solutions portfolio with the acquisition of OrangeSoda, a provider of internet marketing services specializing in search, mobile and social media campaign strategies for small businesses. The increasing digital marketing spending trends by small businesses is expected to drive the company's future revenues.

Strategic acquisitions

Deluxe made a series of acquisitions which are expected to enable it to expand its offerings and geographic presence. For instance, in October 2015, the company acquired Datamyx, a leading provider of integrated information, technology and analytics for \$160 million. The acquisition is expected to expand the company's marketing solutions and other services product offerings. Through this acquisition, the company intends to add data analytics and modeling capabilities to its financial services segment. Similarly, in September 2015, the company acquired selected assets of FMC Resource Management, a marketing services provider. In the earlier months of 2015, Deluxe acquired selected assets of Tech Assets, a provider of shared hosting websites to small businesses; selected assets of Verify Valid, a provider of electronic check payment services; and selected assets of Range, a marketing services provider. All these acquisitions are expected to enhance the company's Small Business Services segment.

Earlier in October 2014, Deluxe acquired Wausau Financial Systems, a market leader in receivables management for commercial banks and major corporations. This acquisition aligns with the company's strategy of developing and delivering a range of retail-market financial technology solutions, including marketing services, risk and performance management, digital channels and loyalty. This acquisition is expected to enhance the company's Financial Services segment and diversify its solutions portfolio. It would enable Deluxe to address the highest priority needs for both the commercial and retail sides of the financial services market. It would also enhance the company's customer base with the addition of Wausau's roster of clients that include nine of the top 10 financial institutions and more than 50 Fortune 500 companies.

The company's inorganic growth strategy would enhance its product and services offerings and enable it to drive revenue growth in the future.

Strong growth in the US office services and supplies market

The US office services and supplies market has been growing steadily over the last five years. The market is expected to grow further during the years until 2018. According to MarketLine, the US office services and supplies market is expected to reach \$99.4 billion in 2018 from \$92.3 billion in 2014 at a CAGR of 2% during 2014-18. Deluxe is well positioned to drive growth from this market. The company offers a range of office services and supplies, including appointment products; business cards and letterheads; envelopes; folders, filing and storage; greeting cards; labels, stickers, and label makers; labor law products; office essentials; pricing tags and ticketing; retail store supplies and packaging; signs, posters and hangers; and software services. The steady growth in the end market would increase demand for company's products and drive revenue growth in the future.

Threats

Intense competition

The company faces intense competition in all areas of its business. In the small business forms and supplies industry, the company faces competition from office product superstores, local printers, business form dealers and internet-based suppliers. In addition, the company competes with traditional storefront printing companies; office superstores; companies offering website design and hosting; wholesale printers; online printing companies; email marketing services companies; suppliers of custom apparel, promotional products and customized gifts; and numerous internet firms and retailers.

In the check printing business of the payments industry, the company faces considerable competition from several other check printers and from check printing software vendors. The competition is expected to remain intense as check usage continues to decline and financial institutions continue to consolidate. In the Financial Services marketing solutions business, Deluxe faces intense competition from financial institution core processors, advertising agencies and numerous financial technology service providers. Some of the company's major competitors include Harland Clarke, MDC Partners, and R.R. Donnelley among others.

Intense competition may continue to put pricing pressure on the company thereby reducing its margins and market share.

Security breaches involving customer data may adversely impact its business

The company provides internet-based marketing services, including web hosting services directly to small businesses and through wholesale partners. These web-based channels collect customer's bank account information and other personal information, and bill the customer's credit card accounts. The company has several security procedures and systems to ensure the secure storage and transmission of data, including encryption and authentication technology licensed from third parties, to effect secure transmission of confidential information. However, the computer networks may be exposed to accidental or willful security breaches.

Further company's security measures may be breached by third party action, computer viruses, accidents, employee error or malfeasance, or design flaws in the company's systems could be exposed and exploited. Due to any of above mentioned reasons if a third party obtains unauthorized access to client information it may adversely affect the company's reputation. The client may even terminate the order which may affect the company's business. Further the federal, state and foreign laws require the companies to notify individuals of data security breaches involving their personal data. These disclosures may affect the customer's reputation and may affect its business. Any security breach and disruption may damage the company's financial health and have a material effect on the company's cash flows, competitive position, and results of operations.

Changing customer preferences

The company relies on various methods to promote its products and services, including direct mail advertising, e-mail marketing, purchased search results from online search engines, broadcast media, and advertising banners and other online links. The company experienced a decline in media response rates across a wide variety of products and services, attributable to decline in check usage, the gradual obsolescence of standardized forms products and increasing utilization of e-commerce by both consumers and small businesses.

In addition to print and e-mail advertising, many customers access the company's websites through internet search engines. Search engines typically provide two types of search results, algorithmic and purchased listings. Algorithmic listings are not purchased, but are determined and displayed solely by a set of formulas designed by the search engine. Purchased listings can be bought to attract users to the websites. Deluxe relies on both algorithmic and purchased listings to attract customers to its websites. However, if the search engines modify the algorithms, it would lead to a decline in customer traffic on the company's websites. As a result, the company will have to resort to more costly resources to replace lost internet traffic, which would adversely affect the company's results of operations. In addition, the cost of purchased search engine listings could increase as demand for them continues to grow, and further cost increases could negatively affect Deluxe's profitability.

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