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**Donnelley Financial  
Solutions, Inc.** NYSE:DFIN

*Earnings Call*

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# Call Participants

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# Presentation

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## Operator

Good day, and welcome to the Donnelley Financial Solutions Third Quarter 2024 Earnings Conference Call. [Operator Instructions] And finally, I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Mike Zhao, Head of Investor Relations, to begin the conference. Mike, over to you.

## Michael Zhao

*Head of Investor Relations*

Thank you. Good morning, everyone, and thank you for joining Donnelley Financial Solutions Third Quarter 2024 Results Conference Call. This morning, we released our earnings report, including a set of supplemental trending schedules of historical results, copies of which can be found in the Investors section of our website at [dfinsolutions.com](https://dfinsolutions.com).

During this call, we'll refer to forward-looking statements that are subject to risks and uncertainties. For a complete discussion, please refer to the cautionary statements included in our earnings release, further detailed in our most recent annual report on Form 10-K, quarterly report on Form 10-Q and other filings with the SEC.

Further, we will discuss certain non-GAAP financial information, such as adjusted EBITDA, adjusted EBITDA margin and organic net sales. We believe the presentation of non-GAAP financial information provides you with useful supplementary information concerning the company's ongoing operations and is an appropriate way for you to evaluate the company's performance. They are, however, provided for informational purposes only. Please refer to the earnings release and related tables for GAAP financial information and reconciliations of GAAP to non-GAAP financial information.

I'm joined this morning by Dan Leib, Dave Gardella, and other members of management.

I will now turn the call over to Dan.

## Daniel N. Leib

*President, CEO & Director*

Thank you, Mike, and good morning, everyone. Our third quarter results offered further validation of our strategy, including a favorable sales mix driven by double-digit growth in our SaaS offerings, improvements in both operating cash flow and free cash flow and great progress in expanding the adoption of our offerings in the marketplace.

Against the backdrop of a soft capital markets transactional environment, which resulted in an 8% reduction in our transactional revenue, we delivered solid results with net sales of \$179.5 million and adjusted EBITDA of \$43.2 million resulting in an adjusted EBITDA margin of 24.1%, which once again demonstrated the resiliency of our operating model across various market conditions and the sustainability of our performance as our business mix continues to transform. Dave will cover our results in more detail, including some items that negatively impacted our year-over-year profitability comparisons.

Specific to our third quarter performance, I am pleased with the continued strong demand for our software offerings, where we delivered year-over-year organic net sales growth of 13.6%, a continuation of the strong growth rate we achieved in the first half of this year. Software Solutions net sales represented approximately 46% of total net sales in the quarter, the highest level we have achieved to date.

More significantly, third quarter Software Solutions sales were, for the first time, meaningfully higher than both tech-enabled services and print and distribution sales. As our software offerings serve recurring and reoccurring business needs of our clients, this offers another positive proof point of our progress in transforming DFIN.

On a trailing 4-quarter basis, Software Solutions net sales reached nearly \$322 million, growing 13.1% on an organic basis from the third quarter 2023 trailing 4 quarters and represent 40.1% of trailing 4-quarter sales, an increase of approximately 360 basis points from the third quarter 2023 trailing 4-quarter sales.

Our third quarter Software Solutions net sales growth continues to be led by the performance of Venue, which posted approximately 27% sales growth despite overlapping last year's strong third quarter. We remain encouraged by Venue's outstanding performance, which is primarily a result of strong sales execution. In addition, the growth rates of our recurring compliance software products, Arc Suite and ActiveDisclosure each improved in the third quarter compared to recent trend.

Within Arc Suite, we realized incremental software revenue from our Tailored Shareholder Report solution. We are encouraged by the level of client adoption of our software solutions for Tailored Shareholder Reports and remain on track to achieve \$11 million to \$12 million of incremental recurring software revenue on a full year basis. With approximately half being recognized in 2024.

In addition to positive client feedback, our leadership Tailored Shareholder Report compliance is being recognized more broadly within the investment management industry. Earlier this week, DFIN was awarded the 2024 NOVA Award for industry innovation and product development presented by Nicsa, a global asset management trade association. The award honors DFIN for its outstanding leadership, product development and innovative marketing approach in response to the Tailored Shareholder Reports regulation.

We have spoken in the past about the creation of a platform that leverages capabilities across DFIN in areas such as composition, tagging, filing and regulatory and financial reporting while maintaining client segment unique capabilities. Our award-winning Tailored Shareholder Report solution is a great example of the benefits of the platform. We leverage foundational capabilities while building new requirements to serve the market.

As it relates to ActiveDisclosure, while the overall growth rate improved modestly in the third quarter compared to recent trend, the subscription component of ActiveDisclosure grew at a faster pace in the quarter, reflecting the increased sales momentum from recent wins, combined with overlapping last year's product transition. The stronger subscription revenue growth was partially offset by lower Section 16 beneficial ownership filing activity as the demand for such filings continues to be impacted by a weak IPO market. Looking ahead, we expect the growth rate for ActiveDisclosure to continue to improve in the fourth quarter this year and into 2025.

Within ActiveDisclosure, which also leverages platform capabilities, we are serving additional use cases via a hybrid model that combines our software solution with an unmatched service offering. For example, ActiveDisclosure serves the IPO registration and proxy statement use cases, which historically were managed in a traditional model, and we have received outstanding feedback from clients regarding their ability to work in a way that leverages the full spectrum of our solutions.

Finally, our mix shift was accelerated by the continued reduction in print and distribution revenue which declined by \$4.3 million or 16.3% year-over-year. This reduction took place both in the printing and distribution of Capital Markets compliance documents as well as lower print volume in the Investment Companies business as a result of the Tailored Shareholder Reports regulation.

As a reminder, the Tailored Shareholder Reports regulation eliminated the demand for full length shareholder reports at the fund level and replace them with 2- to 4-page summary documents at the share class level. While we experienced an increase in printing and distribution volume from the additional share class documents, primarily within the regulated insurance segment, that increase in demand was more than offset by a reduction in the overall size of the reports mandated by the TSR rule. We expect this dynamic to continue in the fourth quarter in addition to the broader secular decline in the demand for printed products, resulting in lower print and distribution revenue.

Before I share a few closing remarks, I would like to turn the call over to Dave to provide more details on our third quarter results and our outlook for the fourth quarter. Dave?

**David A. Gardella**

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*Executive VP & CFO*

Thank you, Dan, and good morning, everyone. Before I discuss our third quarter results, I'd like to recap 2 housekeeping items. First, during the third quarter, we discontinued the use and development of a certain software product and recorded pretax charges of \$2.8 million related to accelerated amortization of capitalized software and \$0.6 million of an impairment charge related to software development costs on assets not yet placed in service, all within the Capital Markets - Compliance and Communications Management segment.

Second, our effective tax rate in the quarter was 43.5%, which was driven by increases in both non-recognizable losses and unfavorable discrete tax adjustments combined with the impact of lower pretax earnings. While these adjustments do not impact our forecasted effective tax rate for the year or our long-term outlook, they did have an outsized impact in the quarter. Collectively, the accelerated amortization, impairment charge and tax-related adjustments resulted in a reduction in GAAP and non-GAAP earnings per share of \$0.17 and \$0.16, respectively, but had no impact on third quarter adjusted EBITDA, adjusted EBITDA margin or cash flow.

Next, as Dan referenced, there were a handful of items that impact year-over-year comparability. Specifically, a reduction in compensation-related accruals during the third quarter of last year benefited last year's third quarter by approximately \$4 million. In addition, higher compensation-related accruals related to 2024 performance resulted in approximately \$2 million of incremental expense being recorded in this year's third quarter. Combined, these items negatively impacted year-over-year comparability by approximately \$6 million in adjusted EBITDA across all 4 operating segments as well as corporate with most of the year-over-year impact being reflected within SG&A.

Turning to our third quarter results. As Dan noted, we continue to experience positive momentum in the adoption of our Software Solutions, which increased by 13.6% on an organic basis year-over-year, representing the third consecutive quarter of double-digit Software Solutions net sales growth. Despite the continued softness in capital markets transactional environment, our strong software performance enabled us to deliver another quarter of improved sales mix, solid adjusted EBITDA and year-over-year improvements in both operating cash flow and free cash flow.

On a consolidated basis, total net sales for the third quarter of 2024 were \$179.5 million, a decrease of \$0.5 million or 0.3% on a reported basis and an increase of 0.2% on an organic basis from the third quarter of 2023. The decrease in net sales was driven by lower volume in our Compliance and Communications Management segment, which decreased by \$9.5 million in aggregate, nearly offset by the growth in Software Solutions net sales which increased by \$9 million or 13.6% on an organic basis.

Third quarter adjusted non-GAAP gross margin was 61.7% and approximately 110 basis points higher than the third quarter of 2023, primarily driven by a favorable business mix, featuring growth in higher-margin software solution sales and the impact of ongoing cost control initiatives, partially offset by lower capital markets transactional activity and higher compensation-related expense.

Adjusted non-GAAP SG&A expense in the quarter was \$67.6 million, a \$7.9 million increase from the third quarter of 2023. The increase in adjusted non-GAAP SG&A was primarily driven by higher compensation-related expenses, including the items that I noted earlier and higher bad debt expense. These variances were partially offset by lower third-party expenses and cost control initiatives.

Our third quarter adjusted EBITDA was \$43.2 million, a decrease of \$6.2 million from the third quarter of 2023. Third quarter adjusted EBITDA margin was 24.1%, a decrease of approximately 330 basis points from the third quarter of 2023, primarily driven by the year-over-year variance in SG&A that I just outlined.

Turning to our third quarter segment results. Net sales in our Capital Markets - Software Solutions segment were \$53.3 million, an increase of 16.8% on an organic basis from the third quarter of last year, driven by the continued strength in Venue which was up \$7.4 million or approximately 27% year-over-year.

On a trailing 4-quarter basis, Venue sales have exceeded \$137 million and grew approximately 33% compared to the third quarter 2023 trailing 4-quarter period. Consistent with the recent trend, an increase in volume on the platform and higher pricing continue to be the main drivers of Venue sales growth. Further, our strong sales execution continued to deliver large client wins onto the platform. The sales growth contribution from large projects in the third quarter was similar in magnitude to the second quarter or approximately 1/3 of total third quarter growth.

Going forward, we expect Venue to continue to deliver solid year-over-year growth, albeit at a more moderate pace compared to the robust growth rates we achieved in the first 3 quarters of this year given the impact of the large projects in addition to overlapping Venue's very strong performance in the fourth quarter of 2023.

Net sales of ActiveDisclosure, including File 16, increased approximately 3% in the third quarter, a modest improvement compared to recent trend driven by growth in subscription revenue, which increased 6% versus the third quarter of last year, partially offset by a reduction in services revenue primarily as a result of lower Section 16 ownership filing activity that Dan noted earlier.

The growth in third quarter subscription revenue reflects the improvement in ActiveDisclosure's operating metrics that we have been seeing over the last several quarters, including continued growth in net client count which has accelerated following the platform transition in mid-2023. In addition, our sales execution, coupled with recent product enhancements is resulting in sequential improvements in revenue retention rates relative to earlier this year. Our improved performance and sales momentum create a solid foundation for future sales growth.

Adjusted EBITDA margin for the segment was 24.8%, a decrease of approximately 80 basis points from the third quarter of 2023, primarily due to an increase in compensation-related expense and higher bad debt expense, partially offset by higher net sales and a favorable sales mix from the growth in Venue and cost control initiatives.

Net sales in our Capital Markets - Compliance and Communications Management segment were \$63.5 million, a decrease of \$6.6 million or 9.4% from the third quarter of 2023, driven primarily by lower capital markets transactional revenue. We recorded \$45.3 million of capital markets transactional revenue which was flat on a sequential basis and down \$3.8 million or 7.7% compared to last year's third quarter.

Similar to what we experienced in the second quarter, the level of deal activity in the third quarter remained mixed. IPO activity in the third quarter remained higher than last year, which resulted in an increased number of priced IPOs that raised over \$100 million compared to the third quarter of 2023, while the market for completed public company M&A deals in the U.S. remain down on a year-over-year basis. Overall, the deal environment remained soft compared to historical averages.

For IPO and M&A transactions that were completed in the third quarter, we maintained our historical high market share. While the outlook for the capital markets transactional environment is uncertain, DFIN remains very well positioned to capture a significant share of future demand for transaction-related products and services when market activity picks up.

Capital Markets Compliance revenue was down \$2.8 million or 13.3% compared to the third quarter of 2023, driven primarily by a lower volume of compliance work, including the related printing and distribution, consistent with the trend from the first half of the year.

In addition, while our Capital Markets Compliance offering, which supports our corporate clients with their ongoing compliance needs is mostly recurring in nature, a component is event-driven, including certain 8-K filings and special proxies, which can fluctuate from period to period. During this year's third quarter, we experienced a decrease in the volume of event-driven special proxies, further contributing to the year-over-year sales decline.

Adjusted EBITDA margin for the segment was 31.7% and a decrease of approximately 620 basis points from the third quarter of 2023. The decrease in adjusted EBITDA margin was primarily due to the lower transactional sales and higher compensation-related expense, partially offset by cost control initiatives.

Net sales in our Investment Companies - Software Solutions segment were \$28.9 million, an increase of 8.2% versus the third quarter of 2023, driven by incremental revenue from our Tailored Shareholder Report solution. As Dan noted earlier, we are encouraged by the positive market response and client adoption of DFIN's TSR software solution. The growth from TSR was partially offset by lower revenue in our ArcRegulatory offering as we overlap onetime revenue from a regulatory-driven filing in the EU that benefited us in the third and fourth quarters of last year.

We expect a similar dynamic for the fourth quarter of this year, specifically continuing to realize incremental revenue from Tailored Shareholder Reports while overlapping the onetime EU-related revenue that benefited the third and fourth quarters of 2023, which combined will once again result and strong overall Arc Suite growth compared to the first half of 2024.

Adjusted EBITDA margin for the segment was 30.8%, a decrease of approximately 630 basis points from the third quarter of 2023. The decrease in adjusted EBITDA margin was primarily due to higher compensation-related expense, higher service-related costs associated with the ramp-up of the TSR offering and higher product development and technology investments in support of growth opportunities, partially offset by higher sales volume and pricing uplifts.

Net sales in our Investment Companies - Compliance and Communications Management segment were \$33.8 million, a decrease of \$2.9 million or 7.9% from the third quarter of 2023 driven primarily by a reduction in print and distribution revenue related to both the long-term secular decline in the demand for printed materials as well as the Tailored Shareholder Reports regulation.

Adjusted EBITDA margin for the segment was 30.2%, approximately 390 basis points lower than the third quarter of 2023. The decrease in adjusted EBITDA margin was primarily due to lower sales and higher compensation-related expense partially offset by a favorable sales mix. Non-GAAP unallocated corporate expenses were \$9.2 million in the quarter, a decrease of \$2.3 million from the third quarter of 2023, primarily driven by lower third-party expenses and the impact of cost control initiatives partially offset by higher compensation-related expense.

Free cash flow in the quarter was \$67.3 million, an improvement of \$6 million compared to the third quarter of 2023. The year-over-year increase in free cash flow was primarily driven by improved working capital performance, part of which is a result of our changing sales mix featuring more software solution sales and less print and distribution sales and lower restructuring and interest payments. We ended the quarter with \$124.6 million of total debt or \$91 million on a non-GAAP net debt basis, a reduction of \$41.3 million and \$63.2 million, respectively, versus the end of last year's third quarter.

From a liquidity perspective, we had no outstanding borrowings under our revolver and had \$33.6 million of cash on hand. As of September 30, 2024, our non-GAAP net leverage ratio was 0.4x. As a reminder, our cash flow is historically seasonal, generating more than all of our free cash flow in the second half of the year, as our sales mix continues to evolve to proportionately more subscription-based software solutions, we expect the seasonality to be less significant as we have experienced so far in 2024.

Regarding capital deployment, we repurchased approximately 208,000 shares of our common stock during the third quarter for \$13.3 million at an average price of \$63.96 per share. Year-to-date through September 30, we've repurchased approximately 666,000 shares of our common stock for \$41.3 million at an average price of \$62.10 per share. As of September 30, 2024, and we had \$108.7 million remaining on our \$150 million stock repurchase authorization. Going forward, we will continue to take a balanced approach towards capital deployment. We continue to view organic investments to drive our transformation, share repurchases and net debt reduction each as key components of our capital deployment strategy and we'll remain disciplined in this area.

As it relates to our outlook for the fourth quarter of 2024, we expect consolidated fourth quarter net sales in the range of \$165 million to \$175 million and adjusted EBITDA margin in the low 20% range. Compared to the fourth quarter of last year, the midpoint of our consolidated revenue guidance, \$170 million, implies a consolidated net sales decrease of approximately \$6 million to last year's fourth quarter as the reduction in print and distribution and lower transactional sales, mostly related to last year's large mutual fund special proxy project within the Investment Companies - Compliance and Communications Management

segment, are expected to more than offset growth in Software Solutions sales part of which is driven by the incremental revenue from our Tailored Shareholder Report solution. Further, the guidance assumes capital markets transactional sales of approximately \$48 million down approximately \$2 million from last year's fourth quarter.

Before I turn it back to Dan, I'd like to comment on an action the company has taken regarding its primary defined benefit plan which has been frozen since 2011 at RR Donnelley and was inherited by DFIN as part of our spinoff.

During the quarter, we executed an amendment to allow for the termination of the plan. We intend to settle the existing obligations by offering lump sum distributions to participants followed by the purchase of annuity contracts to transfer the plan's remaining obligations to a third party. As settlement of the obligations will be funded with planned assets, we expect to make a cash contribution in 2025 to fully fund the plan. The amount of the cash contribution is dependent on how many participants elect lump sum settlements as well as prevailing market conditions.

In addition to the expected cash funding, we also expect to record noncash pension settlement charges in the second half of 2025 related to the termination. Given the planned termination is subject to certain considerations including market conditions, the amount of cash payments required and regulatory review, we have the ability to change the effective date of the termination or revoke the decision to terminate the plan. We will provide updates on our progress over the next several quarters.

With that, I'll now pass it back to Dan.

**Daniel N. Leib**

*President, CEO & Director*

Thanks, Dave. The execution of our strategy continues to deliver positive results and further demonstrates DFIN's ability to perform well in varying market conditions. Our solid financial profile provides us with the foundation to continue to execute our strategic transformation.

We are in the midst of preparing our 2025 operating plan. In 2025, we expect to realize additional year-over-year benefits from Tailored Shareholder Reports, continued operational transformation and the execution of our strategy. Consistent with past practice, we expect to provide an update on 2025 and guidance for the first quarter in February.

Before we open it up for Q&A, I'd like to thank the DFIN employees around the world who have been working tirelessly to ensure our clients continue to receive the highest quality solutions. Now with that, operator, we're ready for questions.



## Question and Answer

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### Operator

[Operator Instructions]. And your first question comes from the line of Charles Strauzer from CJS Securities, Inc.

**Charles S. Strauzer**  
CJS Securities, Inc.

Sorry about that, I was on mute there. If you could talk a little bit about EBITDA margins in the quarter and some more color there in terms of the items that impacted your year-over-year comparisons versus Q3 of last year? And also what you're kind of assuming -- what kind of assumptions are you assuming in Q4 guidance?

**David A. Gardella**  
Executive VP & CFO

Yes, Charlie, it's Dave. I'll take that one. Thanks for the question. So we talked about in the prepared remarks on a year-over-year basis, there was about \$4 million of benefit that was reflected in Q3 of 2023's results and about \$2 million of incremental expense in Q3 of '24 related to 2024 performance. So just some anomalies on the timing there in terms of overall margin and the impact as it relates on a year-over-year basis.

I think also, from a sequential perspective, Q3 -- or I should say, Q2 is typically our highest margin quarter and that's really a result of the operating leverage given the seasonality of our top line. So we typically do see lower margin in Q3 compared to Q2. Obviously, some of the relative impact from '23 relative to '24 was exaggerated by some of these compensation-related items that I mentioned.

The second thing, I would also say some of the -- in addition to these items, when you look at the combination of Q2 and Q3, EBITDA margin is close to 31% this year. And then when you compare that to the same periods over the last couple of years, that margin is up a couple of hundred basis points. Looking back to 2022, the combined quarters were about 28% -- just over 28%. And last year, about 29.5%. And again, that's close to 31% this year. So some noise from quarter-to-quarter, but we feel really good about the direction of margins and our long-term guidance there of 30-plus percent.

Specifically as it relates to Q4 guidance, the assumption there, we outlined the impact of transactional in capital markets, down a couple of million dollars relative to last year. Certainly, the impact of some of the onetime items that we had last year, which amounted to about \$7.5 million within the 2 Investment Companies segments. By the time you get to Q4 margin our guidance in the low 20% range is pretty consistent with what we delivered in Q4 of last year.

**Charles S. Strauzer**  
CJS Securities, Inc.

Got it. Great. And just one housekeeping item on D&A in the quarter. It seemed to tick up a little bit sequentially and year-over-year. Any color on that?

**David A. Gardella**  
Executive VP & CFO

Yes. I would point back to one of the housekeeping items that I noted at the beginning of my prepared remarks, we accelerated amortization of an asset that we're no longer using and that was about \$2.8 million of accelerated amortization there.

**Charles S. Strauzer**  
CJS Securities, Inc.

Got it. And how should we think about modeling that going forward?

**David A. Gardella**

*Executive VP & CFO*

Yes, you could strip that out. That was a onetime acceleration. And so I would go back to kind of what the normal run rate had looked like historically.

**Operator**

Your next question comes from the line of Peter Heckmann from D.A. Davidson.

**Peter James Heckmann**

*D.A. Davidson & Co., Research Division*

A few questions, and I was having just a little bit of trouble taking all the notes on the call, a lot of information. But can you give us an update on Tailored Shareholder Reports and kind of put the -- update us on the brackets around kind of the full year benefit that you're expecting and how that's evolved over the last 3 or 4 quarters?

**Daniel N. Leib**

*President, CEO & Director*

Yes, it's Dan. You cut out a little, I think -- I got the question was an update on Tailored Shareholder Reports.

**Peter James Heckmann**

*D.A. Davidson & Co., Research Division*

That's right. Sorry, I don't have the best signal here. But yes, just I think you said, \$11 million to \$12 million, and kind of how do you expect that to roll on?

**Daniel N. Leib**

*President, CEO & Director*

Yes, exactly. So it's \$11 million to \$12 million recurring software revenue. Half of that we realized in 2024 and then we should realize the full \$11 million to \$12 million in 2025.

**Peter James Heckmann**

*D.A. Davidson & Co., Research Division*

Okay. And so the print portion of it, I think you had said previously that some of your competitors were going out with some very competitive pricing, and I assume that's consistent. And so you don't expect much of a print benefit from TSR then?

**Daniel N. Leib**

*President, CEO & Director*

That's correct. Yes. We saw some pickup, as we mentioned in the script. And then there is a regulation change that reduces the amount of print necessary just in going to a shorter form. So that's a net reduction off of any pickup.

**Peter James Heckmann**

*D.A. Davidson & Co., Research Division*

Okay. Okay. And then within capital markets transaction revenue, I think it was down \$2 million year-over-year. Just noting that the number of IPOs, you retained on, was up, it looked like M&A and debt issuance was up. Would you attribute at least a portion of the lower revenue to a lower level of de-SPAC merger transactions?

**Craig D. Clay**

*President of Global Capital Markets*

Yes. This is Craig. Thank you for the question. I think the overall market, we said was up. We had some larger deals in 2023, so some comps there. As you look at the market from a total perspective, we said at the beginning of the year, the IPO market wouldn't be a straight-line recovery, and that certainly hasn't been the case. The interest rate cut last month from the Fed didn't do much to turn the tide for IPOs despite equity in -- being at an all-time high.

The VIX was in range for conducive to IPOs. But as we stated, there were very few that raised over \$100 million. When you look in the quarter, July started out strong. There were 7 IPOs that raised over \$100 million. It was led by Lineage. We were proud to support Lineage. They raised \$4.4 billion near the high end of their range but this positivity in the market didn't last. The market stumbled in early August with economic weakness and then post Labor Day, we saw more clients who were turning to 2025 for the pre-IPO look.

So we have seen large issuers joining the pipeline. So we had 15 companies that joined the IPO pipeline, which is slightly below prior quarters. And then what we've seen in October. So as we look at Q4, is a busier month. There were 10 marquee IPOs that priced. We were fortunate to have supported 8 of those 10, there should be just a handful more IPOs in November and December. And if Q4 ends as we think, we should have a year that has about 69 IPOs. So this would be more than 2022 and 2023. But to add context to Dave's comments earlier, there were just 40 last year. There were 27 in 2022 and the 20-year average is 254.

So the longer-term outlook for IPOs is more promising. Morgan Stanley on their earnings call, their CEO talked about the surge that they expect in 2025. There's still obviously room for skepticism as the U.S. election will provide hopefully some clarity and the market is looking for certainty around regulatory as well as economic policy.

So as you relate back to the quarter, a few more. It's the mix of those and then the lower per debt invoice, the debt doesn't make up for that. And then M&A is certainly still suppressed. So it only takes a few and you've heard the market is sort of ready for change, and we have a robust pipeline of companies who filed confidentially or planning to file as well as a strong pipeline of IPO RFPs.

So I think another piece as this normalizes this event-driven transactions, it's a pipeline for our reoccurring software and contracted software. So it leads to Venue, it leads to ActiveDisclosure pre-IPO, as Dan talked about IPO and certainly post IPO work. So thank you for the question.

### **Operator**

Your next question comes from the line of Sam Salvas from Needham & Co.

### **Samuel J. Salvas**

*Needham & Company, LLC, Research Division*

Just jumping on for Kyle here this morning. I wanted to dig into Venue, it was good to see another quarter of strong growth. And I know you guys mentioned the tough comp from last year, but I did want to just touch on the decel, which was pretty sharp. Are there any changes in the market you're seeing in terms of competitive dynamics? Any lockup in the market given the uncertainty around the election or anything like that, that may be contributed to the decel this quarter?

### **Daniel N. Leib**

*President, CEO & Director*

Yes. I'll start and then maybe -- we've pointed towards some of the larger projects, and I think -- that had taken place earlier in the year and the expected tougher comps given our improvement in performance late last year.

And then to your question on the market, there's not great market information in terms of how other companies are performing, but we have seen at least 1 or 2 and feel like in a 27% increase in revenue that we are taking some share and the market remains consistent with, frankly, what we've seen earlier in the year. And so Craig, anything to add?

**Craig D. Clay**

*President of Global Capital Markets*

Yes. So I appreciate the question. Certainly, that type of growth in Q1 and Q2 is hard to sustain. And as we said, we had tougher comps, we have tougher comps coming up in Q4 and then certainly as we get into '25. We're proud of the quarter, and we think to build on Dan's point, we drove higher page activity, higher pricing. We're seeing still sluggish M&A demand, but we believe the continued sales execution, which has resulted in several large projects driving some significant revenue in Q3 will continue. So we feel great about the position we're in. The product that we have, the sales team that we have, the broader application within the M&A ecosystem that's serving both announced and unannounced deals across public and private companies is resulting in a more resilient stable demand.

So we think as we look into 2025 and hopefully getting back to a median level of activity, the demand for assets will be high, private equity will be back. There's a large amount of capital looking to be put to work. We're pleased with our results. We're pleased with the pipeline, and we are going to continue to execute on what got us here, just great products, sales execution and share expansion.

**Samuel J. Salvas**

*Needham & Company, LLC, Research Division*

Got it. That's super helpful. I appreciate the color on that. And then just as we think about the fourth quarter and maybe the next few quarters. In terms of the software business and growth there, how are you guys thinking about price versus volume with new sales, et cetera, near term?

**David A. Gardella**

*Executive VP & CFO*

Yes, Sam, it's Dave. We haven't broken that out specifically, but I would say -- I'd point to a couple of items. I think when we look at our long-term contracts, certainly, there are customary price escalators there. We've seen historically in Venue kind of moving up to a more market-based price, which has driven a lot of the growth over the last year, but still some opportunity there as well.

Probably the one item to point to that's a little bit unique is the Tailored Shareholder Reports impact. And as Dan mentioned earlier, right, \$11 million to \$12 million. Most of that on an annualized basis, most of that hits within software. And so with half of it coming this year and then getting the second half benefit into next year.

**Operator**

Your next question comes from the line of Raj Sharma from B. Riley.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Solid growth in software, especially Venue again and just kind of following up. Can you provide some more color on the Arc Suite? The better growth you're expecting in Q4, if I heard that correctly.

**David A. Gardella**

*Executive VP & CFO*

Yes. Raj, I think what we said there was a continuation of the better growth that we saw in Q3 relative to the first half of the year. We'll also hit in Q4, and that's the point I just raised regarding Tailored Shareholder Reports, right? So we saw the benefit in Q3. We'll continue to see the benefit in Q4 and then also in the first half of 2025 since that regulation was effective -- became effective in the third quarter.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Got it. Got it. And then can you comment on the ongoing operating expenses, the spend on the software in Q4, is that higher, lower?

**David A. Gardella**

*Executive VP & CFO*

Yes. There's always, again, some timing changes and modest variances from quarter-to-quarter. But I think largely from a modeling perspective, whether you're looking at Q4 or longer term, I think it's making an assumption something similar to run rate is the right way to look at it.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Got it. So no real change on that. And then can you give a little bit more color, the tax impact again in Q3 that led to the \$0.17 charge. Can you clarify that again, please?

**David A. Gardella**

*Executive VP & CFO*

Yes, yes. And -- so let me clarify that. So I addressed it in the prepared remarks as 1 of the 2 housekeeping items. The tax rate was 43.5%, really a combination of 2 things. There were some -- with the way the tax laws work, some non-recognizable losses, right? So you don't get the tax benefit associated with those losses. And then some discrete tax adjustments.

You combine those 2 things with the modest pretax earnings, and it has kind of an outsized impact on the tax rate at 43.5%. I should also clarify that within the \$0.17, about \$0.09 is related to those tax adjustments. The other \$0.08 impact was the combination of the accelerated amortization and the related impairment charge on the asset that we took out of service and wrote down.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Got it. And I think I missed the point on the call where you were talking about the guidance for the fourth quarter. Could you mention that again, please, for revenues?

**David A. Gardella**

*Executive VP & CFO*

Yes. So baked in our guidance for Q4 is that transactions will be down a couple of million dollars relative to Q4 of last year. I think also when you look at the guidance relative to -- our guidance and compare that to Q4 last year, we did have about \$7.5 million of onetime revenue related to a regulation change in the EU, and that impacted the Investment Companies segments. Mostly the Investment Companies - Compliance and Communications Management segment.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Right. And so the range is -- for 4Q?

**David A. Gardella**

*Executive VP & CFO*

So \$170 million at the midpoint, the range we gave was \$165 million to \$175 million.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

And then low 20s EBITDA margins?

**David A. Gardella**

*Executive VP & CFO*

Yes, and that's pretty comparable to what we did in Q4 last year.

**Rajiv Sharma**

*B. Riley Securities, Inc., Research Division*

Got it. And just lastly for me, the cadence so far on transactions business in Q4. Anything unusual or..

**David A. Gardella**

*Executive VP & CFO*

I'd say nothing unusual. Obviously, we have a view of the October activity and certainly, that gets kind of baked into our guidance for Q4. So I'd say at a high level, more of the same of the environment still being relatively soft, certainly compared to historical levels.

**Operator**

There are no further questions at this time. So I'd like to hand the call back over to Dan Leib for closing comments.

**Daniel N. Leib**

*President, CEO & Director*

Great. Thank you, and thank you, everyone, for joining, and we'll look forward to speaking with you soon.

**Operator**

That does conclude our conference for today. Thank you for participating. You may now all disconnect.

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