

S&P Global

Market Intelligence



Donnelley Financial Solutions, Inc. NYSE:DFIN

Earnings Call

Wednesday, April 30, 2025 2:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

EXECUTIVES

Craig D. Clay

President of Global Capital Markets

Daniel N. Leib

President, CEO & Director

David A. Gardella

Executive VP & CFO

Eric J. Johnson

*President of Global Investment
Companies*

Michael Zhao

Head of Investor Relations

ANALYSTS

Charles S. Strauzer

CJS Securities, Inc.

Kyle David Peterson

*Needham & Company, LLC,
Research Division*

Peter James Heckmann

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

Presentation

Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donnelley Financial Solutions First Quarter Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Mike Zhao, Head of Investor Relations. Please go ahead.

Michael Zhao

Head of Investor Relations

Thank you. Good morning, everyone, and thank you for joining Donnelley Financial Solutions' First Quarter 2025 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.

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 and 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 am 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. We delivered strong consolidated first quarter results, with net sales of \$201.1 million, adjusted EBITDA of \$68.2 million and adjusted EBITDA margin of 33.9%. Given our stock trading levels, strong balance sheet and perspective on long-term value, during the first quarter and into the second quarter thus far, we have repurchased approximately 5% of the company's outstanding shares.

While we recognize the uncertainty in the near-term global operating environment, recent trading prices have provided an opportunity to be more aggressive in this area.

I am encouraged by the continued growth in our software offerings, where we delivered year-over-year net sales growth of approximately 6% on an organic basis, driven by approximately 16% growth in our recurring compliance and regulatory-driven products, ActiveDisclosure and Arc Suite, that more than offset a decline in the Venue data room product. Software solutions net sales represented 42.1% of total net sales in the first quarter, an increase of approximately 260 basis points from last year's software solutions net sales mix. On a trailing 4-quarter basis, software solutions net sales made up 42.8% of total net sales, an increase of approximately 500 basis points from the first quarter 2024 trailing 4-quarter period. On both a quarterly and trailing 4-quarter basis, Software Solutions represented the largest component of our overall sales mix, a positive proof point of our progress in becoming a software-centric company.

This positions us well to achieve our long-term target of deriving approximately 60% of total net sales from Software Solutions by 2028. During the quarter, ActiveDisclosure and Arc Suite each posted double-digit sales growth for the second consecutive quarter. For ActiveDisclosure, this improvement was primarily driven by the continued adoption of our service package offerings, combined with growth in

subscription revenue as a result of higher net customer count from recent wins, as well as higher value per client.

In the case of Arc Suite, the improved growth rate was primarily driven by the tailwind from the Tailored Shareholder Reports regulation, which became effective mid last year. As it relates to Venue, following robust growth over the last several quarters, Venue sales declined moderately in the first quarter as we overlap several large deal rooms. We remain encouraged by Venue's performance, which benefits from stable demand from both announced and unannounced deals across public and private companies alike, despite some volatility inherent in the broader M&A market in terms of completed deals.

While Venue serves both public and private company deals, whether announced or still in the diligence process, our capital markets transactional offering primarily serves public company M&A, IPO and debt transactions. Our capital markets transactional revenue, while improving on a sequential basis from the fourth quarter of 2024, continued to be depressed by the combination of market volatility, macroeconomic headwinds and heightened uncertainty. Despite the ongoing downturn in global capital markets transactional activity, our business has proven to be fundamentally and substantially more profitable than historically.

Our adjusted EBITDA margin of 33.9% in the quarter reached 29.5% on a trailing 4-quarter basis despite the ongoing headwinds of a weak transactional market. Our performance reflects our evolving sales mix, permanent changes to our cost structure and continued cost discipline and further demonstrates our ability to sustainably operate at a higher level of profitability across a range of market conditions.

We continue to invest to shift toward a more favorable recurring sales mix, while continuing to aggressively manage our cost structure and being disciplined stewards of capital. A key factor behind our margin performance has been the progress we have made toward creating a cost structure and operating model that better aligns with our business mix, part of which is driven by cyclical market factors. Over the last several years, to establish an optimized and variable cost structure in areas of the business that have both seasonal and cyclical fluctuations, we took aggressive actions that targeted many aspects of our fixed cost base, including downsizing our print production platform, driving internal efficiencies and reducing our physical footprint.

During the quarter, we maintained the same disciplined approach, and we'll continue to manage our cost structure prudently, especially in light of the current economic landscape and uncertainty.

As we continue to gain efficiency across our operations, we also remain focused on reinvesting in areas of our business to accelerate our transformation. In the first quarter, we continued to invest in our software offerings and the associated technologies to support continued innovation and growth. The investments we are making also enable us to modernize our business operations by applying automation and AI-driven tools, including commercial AI solutions and our own Agentic AI development to streamline workflows, improve productivity and support profitable growth. These investments will help to profitably scale existing products, increase our speed to market for future offerings and enhance client experience.

Before turning the call over to Dave, I'd like to provide some perspective on DFIN's operating characteristics as we operate in a new and evolving global economic environment. While much uncertainty exists, we presently do not anticipate any significant impact on our operations based on the recently announced tariffs, in large part due to the nature and structure of our business. Our business is primarily software and services and predominantly U.S.-based. We have a relatively simple supply chain that has continued to operate without disruption. With approximately 90% of our revenue derived from the U.S., our software products and services are largely insulated from current trade pressures. In the cases where we do see input costs rising, we expect to be able to increase our prices. In addition, approximately 75% of our revenue is based on recurring and reoccurring sources, the vast majority of which is related to ongoing SEC compliance, for which core regulations have thus far not been impacted.

Our strong mix of recurring compliance offerings provide stability during times of market volatility. Of course, our clients that operate across different industries will have varying impacts to their operations.

As it relates to our event-driven capital markets transactional offering, while the global deal environment is yet to emerge from more than 3 years of historically low activity, the underlying latent demand for transactions remains intact. From a market demand perspective, recent comments from the SEC are encouraging. The commission's desire for regulations to be more tailored, avoiding unnecessary burdens on public companies, will support future IPO activity and ongoing compliance needs. And while we do not expect to return to normalized levels of transactions until market uncertainty subsides, DFIN remains very well positioned to support our clients when that occurs.

Finally, our strong balance sheet and ample liquidity enable us to confidently execute our strategy and drive long-term shareholder value. With our non-GAAP net leverage ratio under 1x and robust annual free cash flow generation, our strong financial flexibility enhances our ability to execute our transformation. We will continue to allocate capital in a disciplined and thoughtful manner that best advances our strategy and maximizes shareholder value.

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

David A. Gardella

Executive VP & CFO

Thanks, Dan, and good morning, everyone. Before I discuss our first quarter financial performance, I'd like to recap one housekeeping item in the quarter. During the first quarter, we amended and extended our credit agreement to provide for a \$115 million Term Loan A and to extend the maturity of the \$300 million revolving credit facility. Both instruments have maturity dates of March 13, 2030. The proceeds from the Term Loan A and the revolving credit facility were used to retire in full the \$125 million outstanding on the prior Term Loan A. This transaction, combined with our strong free cash flow generation, continues to provide DFIN with abundant financial flexibility to execute our strategy.

Now turning to our first quarter results. As Dan noted, we delivered solid first quarter results in a challenging environment, highlighted by a strong year-over-year increase in adjusted EBITDA and adjusted EBITDA margin expansion. We posted approximately 6% organic growth in our software solutions net sales, including approximately 16% sales growth in our recurring compliance software products, all while continuing to drive operating efficiencies and expanding adjusted EBITDA margin to 33.9%.

As Dan noted earlier, we've made tremendous progress in aligning our cost structure and operating model to our evolving business mix over the last several years, including downsizing our print production platform, driving internal efficiencies and reducing our physical footprint. We maintained the same disciplined approach in the quarter, and we'll continue to take a similar approach going forward.

On a consolidated basis, total net sales for the first quarter of 2025 were \$201.1 million, a decrease of \$2.3 million, or 1.1% from the first quarter of 2024. First quarter revenue was above the high end of our guidance range and was aided by better-than-expected event-driven transactional revenue within capital markets and favorable timing in investment companies compliance volume, a component of which was realized through higher print and distribution revenue within this segment.

In addition, software solutions net sales, which increased \$4.3 million, or 5.8% on an organic basis compared to the first quarter of last year, helped to partially offset the decline in capital markets compliance revenue of \$7.8 million versus the first quarter of 2024, part of which was related to lower print and distribution volume, consistent with recent trends.

First quarter adjusted non-GAAP gross margin was 63.7%, approximately 310 basis points higher than the first quarter of 2024, primarily driven by a favorable sales mix, the impact of cost control initiatives and price uplifts, partially offset by lower capital markets compliance volume.

Adjusted non-GAAP SG&A expense in the quarter was \$59.9 million, an \$8.2 million decrease from the first quarter of 2024. As a percentage of net sales, adjusted non-GAAP SG&A was 29.8%, a decrease of approximately 370 basis points from the first quarter of 2024. The decrease in adjusted non-GAAP SG&A was primarily driven by a reduction in selling expense related to lower sales in certain areas, the impact of cost control initiatives and lower bad debt expense.

Specific to our bad debt expense, as a result of our strategy to deprioritize low-quality transactional deals, including certain de-SPAC transactions which have higher collections risk, we realized a reduction in bad debt expense during the first quarter compared to our recent experience. As we continue to prioritize higher-quality deals, we expect our bad debt expense profile to continue to normalize going forward.

Our first quarter adjusted EBITDA was \$68.2 million, an increase of \$13 million, or 23.6% from the first quarter of 2024. First quarter adjusted EBITDA margin was 33.9%, an increase of approximately 680 basis points from the first quarter of 2024, primarily driven by a favorable sales mix, the impact of cost control initiatives and lower bad debt expense, partially offset by lower capital markets compliance volume.

Turning now to our first quarter segment results. Net sales in our Capital Markets Software Solutions segment were \$51.9 million, a decrease of \$1.1 million, or 1.7% on an organic basis from the first quarter of last year, driven by Venue, which was down \$3.1 million or approximately 9% year-over-year, partially offset by the growth in ActiveDisclosure.

During the first quarter, ActiveDisclosure sales grew approximately 11%, a continuation of the stronger growth rate we experienced during the fourth quarter of last year. We continue to make progress to expand the adoption of ActiveDisclosure services packages, providing a strong base of contracted recurring revenue. Also benefiting the growth was the migration of certain traditional activities to ActiveDisclosure. As we increasingly serve our clients via software solutions, we experienced a shift of certain activities, which were historically performed on our traditional services platform to ActiveDisclosure, including compliance work such as annual proxy documents. While the shift from traditional compliance to ActiveDisclosure during the first quarter was modest, we expect this trend to continue in the future, driven by the improved capabilities of our software platform and evolving client preference to work in a hybrid environment, leveraging both our software and unmatched service and domain expertise.

We remain encouraged by ActiveDisclosure's continued growth in client count and higher average price per client, which combine to create a solid foundation for future revenue growth.

As expected, during the first quarter, Venue faced tough comparisons as we overlapped several large projects which benefited last year's first quarter sales. In aggregate, those large projects accounted for approximately \$4 million of net year-over-year impact, which more than offset the underlying growth in Venue sales. We expect the year-over-year impact from large projects to continue in the second quarter, albeit at less of a headwind than in the first quarter, approximately \$2 million.

Adjusted EBITDA margin for the segment was 26.8%, a decrease of approximately 300 basis points from the first quarter of 2024, primarily due to lower sales volume and an unfavorable sales mix, partially offset by the impact of cost control initiatives.

Net sales in our Capital Markets Compliance & Communications Management segment were \$83.9 million, a decrease of \$7.2 million, or 7.6% on an organic basis from the first quarter of 2024, driven by lower compliance volume, partially offset by higher transactional revenue. In the first quarter, we recorded \$48.6 million of capital markets transactional revenue, a modest increase from the \$48 million we delivered in last year's first quarter. Following a very weak fourth quarter of 2024, where we recorded the lowest level of transactional revenue in our history, the global equity deal market rebounded modestly to start the first quarter, with January and February deal volume, especially IPO transactions that raised over \$100 million, exceeding last year's levels. However, escalating macroeconomic headwinds and tariff uncertainty resulted in increased market volatility and limited deal activity in March. In short, the global deal environment in the first quarter was very soft compared to historical averages, and this weakness will persist with market uncertainty.

For transactions that we completed in the first quarter, we maintained our historical high market share, reflective of DFIN's strong market position. Capital Markets compliance revenue was down \$7.8 million, primarily due to our continued exit of certain low-margin proxy statement activity and the related print and distribution, consistent with our approach during last year's proxy season. In addition, we continue to experience lower market demand for certain event-driven filings such as 8-K and special proxies associated with corporate transactions, given the softness in that market.

Finally, as I commented earlier, certain activities which were historically performed on our traditional services platform shifted to ActiveDisclosure.

Adjusted EBITDA margin for the segment was 43.7%, an increase of approximately 920 basis points from the first quarter of 2024. The increase in adjusted EBITDA margin was primarily due to lower selling expense, cost control initiatives and lower bad debt expense, partially offset by lower sales volume.

Net sales in our Investment Company Software Solutions segment were \$32.7 million, an increase of \$5.4 million, or 20.2% on an organic basis, versus the first quarter of 2024, primarily driven by incremental revenue from our Tailored Shareholder Reports solution. On a trailing 4-quarter basis, total Arc Suite reached approximately \$122 million in revenue and grew approximately 13% compared to the first quarter 2024 trailing 4 quarters, driven by growth in subscription revenue, including the impact of the Tailored Shareholder Reports solution.

Based on the midyear 2024 effective date, we will continue to realize incremental revenue from Tailored Shareholder Reports in the second quarter of 2025.

Adjusted EBITDA margin for the segment was 39.1%, an increase of approximately 980 basis points from the first quarter of 2024. The increase in adjusted EBITDA margin was primarily due to operating leverage on the increase in net sales and price uplifts, partially offset by higher service-related costs associated with the Tailored Shareholder Reports offering.

Net sales in our Investment Companies Compliance and Communications Management segment were \$32.6 million, an increase of \$0.6 million, or 2.2% on an organic basis from the first quarter of 2024, primarily driven by the timing shift of certain print and distribution volume related to the Tailored Shareholder Reports for the regulated insurance market from the second quarter into the first quarter and higher event-driven transactional revenue. The timing shift related to Tailored Shareholder Reports, in addition to the broader secular decline in the demand for printed products will result in lower print and distribution revenue in the second quarter compared to the second quarter of last year.

Adjusted EBITDA margin for the segment was 37.4%, approximately 1,180 basis points higher than the first quarter of 2024. The increase in adjusted EBITDA margin was primarily due to higher sales, a favorable sales mix and cost control initiatives.

Non-GAAP unallocated corporate expenses were \$7.4 million in the quarter, a decrease of \$0.8 million from the first quarter of 2024, primarily due to cost control initiatives and lower healthcare expense.

Free cash flow in the quarter was negative \$51 million, \$10.8 million unfavorable compared to the first quarter of 2024. The year-over-year decline in free cash flow was primarily driven by unfavorable working capital timing and elevated performance-based payments in the quarter related to full year 2024 performance, partially offset by higher adjusted EBITDA.

We ended the quarter with \$189.5 million of total debt and \$173.3 million of non-GAAP net debt, including \$75 million drawn on our revolver. As of March 31, 2025, our non-GAAP net leverage ratio was 0.8x. As a reminder, our cash flow is historically seasonal. We are a user of cash in the first quarter, closer to breakeven in the second quarter, and generate more than 100% of our free cash flow in the second half of the year.

Regarding capital deployment, we repurchased approximately 861,000 shares of our common stock during the first quarter for \$41.8 million at an average price of \$48.57 per share. As of March 31, 2025, we had \$49.5 million remaining on our \$150 million stock repurchase authorization. Based on our confidence in the strategy and our strong belief in the value of DFIN, we view share repurchases as a very attractive use of cash, especially at the prices we experienced during the last 6 weeks of the quarter and throughout April. As such, in a continuation of our historical approach of being much more aggressive with share repurchases at lower prices, so far in April, in accordance with our pre-established trading parameters, we have repurchased an additional 657,000 shares for \$27.6 million, at an average price of just over \$42 per share, through April 29. On a year-to-date basis, we've repurchased approximately 1.5 million shares for \$69.4 million at an average price of \$45.75 per share.

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 will remain disciplined in this area.

As it relates to our outlook for the second quarter of 2025, we expect a challenging operating environment driven by market volatility and ongoing uncertainty. Further, we expect a reduction in print and distribution revenue in the second quarter based on both the timing shift of certain print and distribution volume from the second quarter into the first quarter that I discussed earlier, as well as the reduction in volume of printed pages associated with the Tailored Shareholder Reports rule, both of which impact the Investment Company's Compliance & Communications Management segment.

With those factors as the backdrop, we expect consolidated second quarter net sales in the range of \$215 million to \$235 million, and adjusted EBITDA margin in the mid-30% range. Compared to the second quarter of last year, the midpoint of our consolidated revenue guidance, \$225 million, implies a reduction of approximately \$18 million, or 7%, year-over-year as lower print and distribution sales, including the timing benefit reflected in our first quarter results, is expected to more than offset growth in Arc Suite and ActiveDisclosure.

We expect Venue to decline at a rate similar to what we experienced in the first quarter, in part due to the revenue associated with outsized rooms in last year's second quarter.

Further, our estimates assume capital markets transactional revenue in the range of \$35 million to \$45 million, which, at the midpoint, is down approximately \$5 million from last year's second quarter. In addition, and related to my earlier comments regarding the impact of the transactional environment on certain compliance filings, most notably special proxies and 8-Ks, our second quarter estimate assumes a modest year-over-year decline in our compliance-based sales within this segment, part of which is related to print and distribution.

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

Daniel N. Leib
President, CEO & Director

Thanks, Dave. Our strong performance in the first quarter was the result of the historical and current disciplined execution of our strategy, which again demonstrated DFIN's ability to perform across varying market conditions. Our focus remains on accelerating our business mix shift by continuing to grow our SaaS revenue base, while maintaining share in our core traditional businesses. We will continue to invest in our compliance software platform to capitalize on regulatory tailwinds. In addition, we will continue to aggressively manage our costs and drive operational efficiencies while maintaining our historical discipline in the allocation of capital.

As I noted earlier, the latent demand for transactions and a more favorable regulatory landscape, combined with our market leadership, is a significant opportunity for DFIN going forward. Market volatility and uncertainty, however, must subside for this opportunity to materialize.

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

Operator

[Operator Instructions] Your first question comes from the line of Charlie Strauzer with CJS Securities, Inc.

Charles S. Strauzer
CJS Securities, Inc.

Just a couple of quick questions here. Margins were significantly higher than expected, especially versus guidance, coming in at the high end of your guidance range for revenue. Just if you could perhaps provide us a little bit more color on what drove that, and perhaps some acceleration or pull forward of the expense reduction efforts?

David A. Gardella
Executive VP & CFO

Yes, Charlie, thanks for the question. A few factors there and a couple of things you noted are actually tied together. But I would say, first, and we highlighted this on the fourth quarter call, the soft transactional market that we saw exiting the year, and we had taken some incremental cost reduction actions and permanent cost reduction actions. And I would say in the first quarter, those came in better than what we had anticipated.

The second factor is the higher revenue and the operating leverage associated with that revenue outperformance. And when you look at that outperformance, it was, I'd say, predominantly a combination of 2 things. The first was higher capital markets transactional sales. We posted revenue of about \$49 million, which was about \$4 million higher than our guidance. And then also, as I mentioned in the prepared remarks, we had some favorable timing in investment companies, and that was probably \$3 million or so of sales that we had assumed would be recognized in Q2 and that moved up in Q1. And again, when you look at the incremental margins on this higher revenue, very strong.

And then I would say the third thing, and again, I mentioned this in the prepared remarks, and we also commented on it on the fourth quarter call, we've really been taking a much more discerning approach on the quality of transactions that we're accepting due to the collections risk on some of the lower quality deals. So related to this, bad debt expense came down in the quarter about \$2.7 million versus the first quarter of last year. While we expected a decrease, I would say this decrease was more than we had contemplated, certainly in our guidance. And we'll expect this trend to continue in a positive direction, though it's really tough to predict exactly how that declines over time. But we're starting from a pretty high watermark coming off of last year's bad debt expense number and looking to drive that down more toward historical averages.

Charles S. Strauzer
CJS Securities, Inc.

Got it. That makes sense. And just secondly, just looking at your guidance for Q2, maybe some more color on the segment level basis into the assumptions behind that?

David A. Gardella
Executive VP & CFO

Yes. I think when you look at -- overall, you have the numbers. Obviously, we talked about it in the prepared remarks. I think when you dive into the segments, if I start with Capital Markets, right, we expect, from a product perspective, ActiveDisclosure to continue to perform well from a year-over-year growth perspective. Venue, as we talked about, has a tough comp really all year long, but certainly, we saw it in Q1, and we'll see that again in Q2. And then I think when you look at the Capital Markets Compliance & Communications Management segment, and I'll start with the compliance work. We talked about some print being down and expect the compliance revenue to continue to decline modestly on a year-over-year basis. And again, a lot of that is print related. The biggest wildcard there would be

transactions, and obviously, we gave a pretty wide range for this quarter. And as we said in the prepared remarks that until the markets have some certainty and less volatility, we would expect the transactional side to be relatively soft.

As I move over to investment companies on the software side, we'll continue to see the benefit in Arc Suite, predominantly related to the Tailored Shareholder Reports regulation. We'll start to overlap that benefit in the second half of the year. But certainly, in Q2, we would expect to see the benefit, again, similar to what we saw in Q1.

And then on the investment companies Compliance & Communications Management, probably the biggest item there is the piece that I just mentioned on the timing shift, about \$3 million of revenue shifted out of what we expected for Q2, and really on a year-over-year basis, would have been comparable to last year's Q2. And so I would expect the trend in that segment to be softer in Q2 than certainly what we experienced in Q1.

Operator

The next question comes from the line of Pete Heckmann with D.A. Davidson.

Peter James Heckmann

D.A. Davidson & Co., Research Division

I wanted to see if you can comment a little bit on share on the ActiveDisclosure side, how the trend has been there over the past 4 quarters? And are you seeing maybe a lead, a bit of pulling away from the pack in terms of it seems like maybe there's 1 or 2 competitors that actually have the ability to invest in the feature functionality of software and then some of the smaller players may not have that ability. Would you agree? And do you see that becoming a bigger differentiating factor over the next 5 years?

David A. Gardella

Executive VP & CFO

Yes, Pete, it's Dave again. I'll start and then Craig can comment with some more details. I think certainly, from a trend perspective in new client logos and as we mentioned, price per client, we continue to make good progress there from an overall market perspective. And then the other aspect that we're seeing in ActiveDisclosure and then also expect that to continue to be a trend that, as clients continue to want to work more and more in a hybrid model, that's certainly going to benefit us. We're having the best of both worlds in terms of being able to leverage the software as well as the traditional service, domain expertise, et cetera. But I'll let Craig comment on some more of the details.

Daniel N. Leib

President, CEO & Director

Yes. Thanks, Dave. It's Dan. Before Craig goes, just on the second question that Pete had on ability to invest. And we are seeing the benefits. We saw it even in the TSR or Tailored Shareholder Reports regulation of the investments that we've made historically in the platform and the ability to get into market faster, and it does build on itself. And that with our prioritization of capital allocation towards organic investment first and going forward with our transformation, we do see that as a big differentiator. And so I'll pass that off to Craig.

Craig D. Clay

President of Global Capital Markets

Yes. To build on those comments, after having completed our platform transformation last year and modest growth, we're certainly really pleased with where we are Q4, Q1 performance and prospective metrics. The progress we're making is reflected, and you'll continue to see that. Q1 was our seventh consecutive quarter of net client growth. Our subscription revenue continues to grow. Our ACV growth shows we're selling at a higher value per client, as mentioned. We're increasing our percentage of 3-year contracts.

Our clients are locking in, which makes future revenue more predictable. And then we've had improvements in revenue retention rates as well as our service revenue is up 32% in the quarter, driven by significant increases in our service package sales, again, predictable revenue. Our clients love AD service. It leads the market. They like predictable packages, and it creates this predictable mix of recurring revenue for DFIN.

If you look at the market, our solution is the most advanced, specifically designed disclosure tool. We have decades of serving SEC clients, and we have price as an opportunity. We have product improvement that Dan spoke of with our investment. Our clients for proxy this season are using the newest editor on the market. The creative work for proxy and other documents in AD is incredible. We've added presentations to that, which is a full connection of the single source to their truth to all creative teams, whether they're creating something for the Board or investors. All of that imports and exports from AD to PowerPoint.

Lastly, the hybrid solution that Dave mentioned, it's a great opportunity for us to marry our traditional platform with software. We're the only ones that can do that. And over time, this will create an even stronger foundation for sustained growth. Thanks for the question.

Peter James Heckmann

D.A. Davidson & Co., Research Division

Okay. That's all really helpful and good to hear. Dave, just one quick follow-up. In terms of the new credit facility, how will that change, if at all, your weighted average cost of debt?

David A. Gardella

Executive VP & CFO

Yes, Pete. So it's no substantial changes in terms of the overall terms in the transaction. There were a handful that all worked to the company's benefit, which was great to see. I would say secondly, that it's all variable rate debt. So it's SOFR plus a spread, and that spread is based on different tiers of our net leverage range. And so we currently sit at the lowest tier of that spread. So it will all be tied to SOFR. I think when you look at the all-in rate now is in the probably 7% range or so.

Operator

Your next question comes from the line of Kyle Peterson with Needham.

Kyle David Peterson

Needham & Company, LLC, Research Division

I wanted to start off on Arc Suite. Growth has been really impressive here for the second quarter in a row. We've seen a nice pop in the year-over-year growth rates. I just want to see, is this kind of a sustainable potential paradigm shift here for growth within that product? Or is there anything like lumpy or one-time that we need to be mindful of when modeling out Arc Suite moving forward?

David A. Gardella

Executive VP & CFO

Yes, Kyle, it's Dave. Thanks for the question. So probably the one factor that is a bit lumpy would be the piece that we're seeing as it relates to the Tailored Shareholder Report regulation. So we started recognizing revenue on that last year in Q3. And so we saw the benefit in the back half last year. We're getting the incremental kind of annualization of that revenue in the first half of this year. And then we'll start to overlap that in the third quarter. I would say the other factor that we will see all year long is some benefits of increased pricing that affect the Arc Suite. And then Eric can provide some more details on what we're seeing in the business.

Eric J. Johnson

President of Global Investment Companies

Thanks, Dave. Thanks for the question, Kyle. In addition to the TSR lift, I think it's important to kind of structure out what we mean. From a TSR perspective, we're talking reporting, tagging, filing, web

hosting, e-delivery, complex mailing as well as digital output. So it's a very broad spectrum of services that TSR drives, and DFIN is very well positioned to handle the full spectrum of services. But specific to your software question, we've had key contract renewals, which are very important for the year. We are seeing growth with existing clients across our Arc Suite offering, and we're also seeing strong price performance.

So TSR, as Dave mentioned, certainly an aspect of the growth, but in the core fundamentals of the Arc Suite platform, we're seeing positive results, not to mention, I believe it's our 25th consecutive quarter of growth in this segment. So we're encouraged by the performance we've seen in Q1. And obviously, we'll take advantage of the TSR opportunities that we'll see, but very pleased with the overall fundamentals of the software business within Arc Suite.

Daniel N. Leib

President, CEO & Director

Yes. The last thing I'd add, Kyle, just on that piece is, Arc Suite as the software product and then the related service expertise and domain expertise that goes around it, and even more so than on the corporate side, the funds and regulated insurance folks value that service, and Dave spoke to how much it's valued on the corporate side. So it's not to diminish that, but they value it even more. And I think it's based more on the funds outsourced model. And so we see a lot of benefit from, and very high customer satisfaction scores with the service that they receive. And so that's another differentiator that supports Eric's comments about the holistic system.

Kyle David Peterson

Needham & Company, LLC, Research Division

Okay. That's really helpful. Appreciate it. And then I guess as a follow-up, great to see you guys really stepped up the buyback pace here, both in the first quarter and April. I guess, as long as the share price remains below historical or recent valuations, is this something you guys could continue to buy back at a faster clip like you have been recently? Or do you think this will kind of normalize back down, given you guys have bought back such a good amount of the shares in the last few months here?

David A. Gardella

Executive VP & CFO

We've been very consistent on this in terms of being more aggressive at lower prices and less aggressive, but still in the market at higher prices. And as we commented on the prepared remarks, still view share repurchases as one of the priorities in terms of capital deployment. And Dan, I think I cut you off, so go ahead.

Daniel N. Leib

President, CEO & Director

Yes. No, you hit it. The only thing I'd add is we have used a grid, to Dave's point, much more aggressive at lower prices. I feel really good about the future performance of the business, notwithstanding some market choppiness currently and uncertainty, but the opportunity to create a lot of value for shareholders. And so it is one of the -- second to executing the transformation and the strategy, really important that we continue to buy back and then certainly within the confines of overall leverage, et cetera. And so that's how we think about it.

Operator

[Operator Instructions] There are no further questions at this time. I would now like to turn the call over to Dan Leib for closing remarks. Please go ahead.

Daniel N. Leib

President, CEO & Director

Great. Thank you, Eric. And yes, thank you, everyone, for joining us, and we look forward to speaking with you in a few months and seeing you at some conferences in the interim.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2025 S&P Global Market Intelligence.