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

Earnings Call

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Call Participants

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Presentation

Operator

Greetings, and welcome to Donnelley Financial Solutions' First Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. [Operator Instructions]

I would now like to turn the conference over to Mike Zhao, Head of Investor Relations.

Michael Zhao

Head of Investor Relations

Thank you. Good morning, everyone, and thank you for joining Donnelley Financial Solutions' First Quarter 2026 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 and adjusted EBITDA margin. 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 started 2026 by building on the positive momentum in our performance from the fourth quarter of last year, delivering consolidated net sales growth, year-over-year growth in adjusted EBITDA, adjusted EBITDA margin expansion and improvements in both operating cash flow and free cash flow.

We delivered first quarter net sales of \$205.5 million, which increased 2.2% compared to the first quarter of 2025. The combination of consolidated net sales growth and cost management yielded first quarter adjusted EBITDA of \$70.6 million and adjusted EBITDA margin of 34.4%, both of which are significantly stronger than historical periods with similar revenue profiles. Importantly, our strong operating performance was in the context of a volatile market environment during the first quarter, shaped by increased macroeconomic uncertainty and escalating geopolitical conflicts.

Our first quarter results are further proof points to the progress of our transformation and demonstrate the resiliency of our operating model across various market conditions as our business mix continues to transform. I am encouraged by the continued growth in our software solutions offerings, where we delivered year-over-year net sales growth of 8.4%. Software solutions net sales represented 44.6% of total net sales in the first quarter, an increase of approximately 250 basis points from last year's software solutions net sales mix, despite a moderate increase in print and distribution net sales in the first quarter related to a large special proxy project.

Despite this deal-related increase in print and distribution sales in the first quarter, our view on the long-term secular decline in the demand for printed products remains consistent, which we expect to be in the range of 5% to 6% annually, with fluctuations based on transactional volumes. On a trailing 4-quarter basis, software solutions net sales made up 47.4% of total net sales, an increase of approximately 460 basis points from the first quarter 2025 trailing 4-quarter period.

This continued positive mix shift positions us well to achieve our long-term target of deriving approximately 60% of total net sales from software solutions by 2028. A major driver of the first quarter software solutions net sales growth was the performance of our recurring compliance software product, ActiveDisclosure, which posted approximately 21% sales growth, marking the sixth consecutive quarter of double-digit sales growth. This sustained momentum reflects the continued growth in net client count and increases in average value per client, both of which are positive outcomes of our transition from the legacy ActiveDisclosure platform to New AD as well as improved sales execution.

In addition, we continued to experience the migration of certain traditional activities to ActiveDisclosure, including an increase in the number of transactional documents and proxy statements being completed on the platform compared to last year's first quarter, a trend we expect to continue going forward.

Further, Active Intelligence, a suite of artificial intelligence capabilities we introduced to select ActiveDisclosure clients in the fourth quarter of last year, became available to all clients in April, representing a step forward in our mission to responsibly deploy AI to increase productivity and efficiency for our clients.

ActiveDisclosure's intelligent, fit-for-purpose capabilities, combined with the domain expertise and 24/7 support of our services organization, remains a strategic differentiator for DFIN.

Venue delivered solid year-over-year sales growth of approximately 7% in the first quarter, driven by a resilient demand for data rooms. I am encouraged by the momentum in the commercial adoption of our new Venue product, which was introduced in the third quarter of last year, as the upgraded product continues to resonate with both current and prospective clients for its speed and simplicity. The rebuilt product redefines efficiency in data room initiation and management, is easier to govern access and permissions, and is more intuitive for deal teams to use.

The improvements we have delivered in new Venue, combined with our strong go-to-market execution, have allowed us to access a broader range of clients and increase the size of our serviceable market. As the adoption of new Venue continues to ramp up, we expect the upgraded product to contribute to Venue's growth in 2026. In addition, we remain excited by opportunities for ArcFlex, the newest module within Arc Suite, which was also launched in the third quarter of 2025. As the momentum toward private investments increases, and with it, more robust reporting and disclosure management needs, we are seeing increased interest from private investment institutions, including hedge funds, private equity and business development companies.

As a financial and regulatory reporting solution purpose-built for private investment institutions, ArcFlex positions DFIN well to capture incremental market demand in the private investment space. In a demonstration of our progress in this area, during the first quarter, we signed our first ArcFlex contract with an alternative asset manager utilizing ArcFlex to modernize its financial and regulatory reporting workflows. We expect the commercial activities around ArcFlex to continue to scale through 2026, resulting in more meaningful incremental revenue starting in 2027.

Before I turn the call over to Dave, I'd like to provide some perspective on DFIN's operating characteristics as we navigate an evolving external environment. Over the past several months, global markets have been impacted by elevated volatility driven by a combination of AI-driven uncertainty and geopolitical tensions. In that context, DFIN's operating model continues to be a point of strength and a source of differentiation. Let me highlight a few items behind our relatively stable performance amid the turmoil.

First, we serve markets where demand is regulatory-driven and nondiscretionary, centered on mission-critical compliance and deal-related workflows for corporations and investment companies. As a result, more than 75% of our revenue is based on recurring and reoccurring sources, the majority of which is related to ongoing SEC compliance for corporations and investment companies, with the remainder, specifically Venue, serving a wide market that encompasses both announced and unannounced deals across public and private companies, which is inherently more stable than the market for completed M&A transactions.

Our strong mix of recurring and reoccurring offerings provide stability during times of market volatility. Next, our unique hybrid model features a combination of software solutions, tech-enabled services, and print-related output, underpinned by DFIN's deep regulatory knowledge and domain and service expertise. The hybrid model differentiates from seat-based pricing models and emphasizes domain expertise and execution, which contrasts with more narrowly focused, point solution and pure-play software providers. While we continue to invest in the growth of our software products, our traditional services and output-related offerings supplement DFIN's ability to work in ways our clients prefer, whether through software-led, service-enabled, or hybrid workflows, backed by capabilities to produce outputs where needed, providing multiple ways to serve their needs as the regulatory landscape evolves.

Finally, amid the AI-induced market volatility, DFIN's strong position as a leading regulatory and compliance provider and our hybrid offerings are important differentiators in the marketplace. During times of market volatility and technological disruption, our clients increasingly recognize AI as a productivity enhancer within DFIN's workflows, not a substitute for the platform itself or the expertise behind it. Compliance and disclosure remain mission-critical, highly regulated activities that require accuracy and accountability, and AI is most effective when deployed within that framework.

As we responsibly integrate AI across both our products and internal operations, our focus remains on improving efficiency, reducing risk, and enhancing productivity, while maintaining rigorous standards around security, privacy, and data governance. 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. As Dan noted, we continued to demonstrate positive momentum in our performance during the first quarter, highlighted by year-over-year net sales growth, an increase in adjusted EBITDA and adjusted EBITDA margin expansion. We posted 8.4% growth in our software solutions net sales, including approximately 21% growth in our recurring compliance product, ActiveDisclosure.

By continuing to execute our software-centric strategy while also driving operating efficiencies, we expanded our first quarter adjusted EBITDA margin by approximately 50 basis points to 34.4%. On a consolidated basis, total net sales for the first quarter of 2026 were \$205.5 million, an increase of \$4.4 million or 2.2% from the first quarter of 2025. The growth in software solutions net sales, which increased \$7.1 million or 8.4% compared to the first quarter of last year, combined with higher event-driven transactional revenue within capital markets, part of which was realized through an increase in print and distribution revenue related to a special proxy, more than offset a decline in capital markets and investment companies compliance revenue, the majority of which was related to a reduction in the demand for printed products, consistent with recent trend.

First quarter adjusted non-GAAP gross margin was 64%, approximately 30 basis points higher than the first quarter of 2025, driven by the growth in software solutions net sales, the impact of cost control initiatives and price uplifts, partially offset by higher print and distribution volume. Adjusted non-GAAP SG&A expense in the quarter was \$61 million, a \$1.1 million increase from the first quarter of 2025. As a percentage of net sales, adjusted non-GAAP SG&A was 29.7%, a decrease of approximately 10 basis points from the first quarter of 2025. The increase in adjusted non-GAAP SG&A was primarily driven by an increase in selling expense related to higher sales volume, partially offset by the impact of ongoing cost control initiatives.

Our first quarter adjusted EBITDA was \$70.6 million, an increase of \$2.4 million, or 3.5%, from the first quarter of 2025. First quarter adjusted EBITDA margin was 34.4%, an increase of approximately 50 basis points from the first quarter of 2025, primarily driven by higher software solutions net sales and cost control initiatives, partially offset by higher capital markets transactional print volume.

Turning now to our first quarter segment results, net sales in our Capital Markets - Software Solutions segment were \$58.6 million, an increase of \$6.7 million, or 12.9%, from the first quarter of last year, primarily driven by growth in ActiveDisclosure, which grew approximately 21%.

Total subscription revenue increased by approximately 17%, primarily driven by the continued growth in client count and the ongoing adoption of ActiveDisclosure services subscription packages, while services and support revenue increased approximately 36%, as we benefit from the continued migration of certain traditional activities to ActiveDisclosure, including the use cases for corporate proxy and transactional filings.

During the first quarter, we experienced a higher volume of corporate proxy documents and S-1 filings related to IPO transactions completed on ActiveDisclosure compared to last year's first quarter. We expect this trend to continue in the future, driven by the capabilities of our software platform, combined with the 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 solid foundation for future revenue growth, part of which will be influenced by the pace of traditional activities transitioning onto the platform. Net sales of Venue increased approximately \$2 million, or 7%, compared to the first quarter of last year. On a sequential basis, the impact from large projects, which aided Venue's growth during the fourth quarter of last year, was less significant during the first quarter.

A resilient level of underlying activity taking place on the platform, coupled with our recent launch of new Venue, creates a strong foundation for future sales growth. Adjusted EBITDA margin for the segment was 32.8%, an increase of approximately 600 basis points from the first quarter of 2025, primarily due to higher net sales and cost control initiatives, partially offset by higher bad debt expense. Net sales in our Capital Markets - Compliance and Communications Management segment were \$82.8 million, a decrease of \$1.1 million, or 1.3%, from the first quarter of 2025, driven by lower compliance volume, partially offset by higher transactional revenue.

In the first quarter, we recorded \$50.8 million of capital markets transactional revenue, which exceeded the high end of our expectations and was up approximately \$2 million, or 5%, from first quarter of 2025. The positive momentum in the equity deal environment, which had been building throughout the second half of 2025, continued to start the year, resulting in increases in the number of regular way IPO transactions that raised over \$100 million and completed public company M&A deals in the U.S. during January and February of 2026 compared to 2025. However, as the quarter progressed, increased market volatility and escalating geopolitical tensions dampened deal activity in March, resulting in a slowdown in the number of deal completions, especially large IPOs.

In short, the global deal environment in the first quarter remained soft compared to historical averages. For transactions that were completed in the first quarter, we maintained our historical market share, reflective of DFIN's strong market position. Specific to M&A activity during the quarter, we benefited from a large merger-related special proxy that included an outsized print and distribution component, specifically the printing and delivery of shareholder communication documents.

Capital Markets compliance revenue was down \$3.3 million, primarily due to our continued exit of certain low-margin activity and the related print and distribution. In addition, we continued to experience lower market demand for certain event-driven filings such as 8-Ks, 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 40.7%, a decrease of approximately 300 basis points from the first quarter of 2025. The decrease in adjusted EBITDA margin was primarily due to the higher mix of print and distribution sales, partially offset by cost control initiatives and lower bad debt expense. Net sales in our Investment Companies - Software Solutions segment were \$33.1 million, an increase of \$0.4 million, or 1.2%, versus the first quarter of 2025, driven by an increase in services revenue, while subscription revenue was flat.

As expected, Arc Suite's first quarter growth remained more modest compared to the growth rate from last year's first quarter, during which net sales increased approximately 20% year-over-year, driven by the uplift from the Tailored Shareholder Reports solution. We expect a similar dynamic to play out in the second quarter of this year. As Dan noted earlier, we are encouraged by the early positive market reception of ArcFlex and expect meaningful incremental revenue starting in 2027. Adjusted EBITDA margin for the segment was 39.6%, an increase of approximately 50 basis points from the first quarter of 2025. The increase in adjusted EBITDA margin was primarily due to price uplifts and cost control initiatives, partially offset by higher service-related costs.

Net sales in our Investment Companies - Compliance & Communications Management segment were \$31 million, a decrease of \$1.6 million, or 4.9%, from the first quarter of 2025, driven by lower print and distribution revenue, which accounted for more than all of the year-over-year decline. Adjusted EBITDA margin for the segment was 39%, approximately 160 basis points higher than the first quarter of 2025. The increase in adjusted EBITDA margin was primarily due to favorable sales mix and cost control initiatives, partially offset by the impact of lower sales volume.

Non-GAAP unallocated corporate expenses were \$7.5 million in the quarter, approximately flat to the first quarter of 2025. Free cash flow in the quarter was negative \$16 million, an improvement of \$35 million compared to the first quarter of 2025. The year-over-year improvement in free cash flow was primarily driven by favorable working capital, part of which was a result of lower incentive-based payments related to 2025 incentive targets, and lower capital expenditures. While our first quarter capital expenditures were lower on a run rate basis compared to our annual guidance of \$55 million to \$60 million, we expect our spending to ramp up throughout the year, reaching the range stated in our 2026 guidance.

We ended the quarter with \$229.9 million of total debt and \$203.8 million of non-GAAP net debt, including \$121 million drawn on our revolver. As of March 31, 2026, our non-GAAP net leverage ratio was 0.8x. As a reminder, our cash flow is historically seasonal, though over time, that seasonality has become less pronounced as our sales mix has evolved towards software subscriptions. Regarding capital deployment, we repurchased approximately 595,000 shares of common stock during the first quarter for \$28.3 million, at an average price of \$47.58 per share.

During the second quarter, the Board of Directors authorized a new share repurchase program of up to \$150 million with an expiration date of December 31, 2027. This repurchase authorization, which commenced on April 17, 2026, replaced the prior authorization, which had \$25.5 million remaining as of March 31, 2026. We continue to view share repurchases as an important component to drive value for shareholders and as part of our balanced capital deployment plan, which also features organic investments to drive future growth and net debt reduction.

As it relates to our outlook for the second quarter of 2026, we expect the unsettled operating environment we experienced during the first quarter to continue, driven by market volatility and ongoing geopolitical uncertainty. Further, we expect the reduction in print and distribution revenue associated with our traditional compliance offerings we highlighted earlier to continue in the second quarter, which historically is comprised of a heavy mix of print and distribution sales, driven by the annual proxy season. This component of our sales profile becoming less significant over time continues to improve our overall sales mix and facilitates our long-term margin expansion.

With those factors as the backdrop, we expect consolidated second quarter net sales in the range of \$215 million to \$225 million, and adjusted EBITDA margin in the range of 34% to 36%. Compared to the second quarter of last year, the midpoint of our consolidated revenue guidance, \$220 million, implies a modest increase of approximately \$2 million, or 1%, year-over-year as growth in software solutions net sales, predominantly ActiveDisclosure and Venue, and higher capital markets transactional revenue are expected to more than offset a continued decline in print and distribution net sales.

Further, our estimates assume capital markets transactional revenue in the range of \$40 million to \$45 million, which, at the midpoint, is up approximately \$8 million from last year's second quarter. As a reminder, last year's second quarter transactional revenue of \$34.8 million represented an all-time low in quarterly transactional revenue. In addition, and related to my earlier comments regarding the impact of the transactional environment on certain compliance filings, most notably 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 to drive growth and support clients.

In addition, we will continue to aggressively manage our costs and drive operational efficiencies while maintaining our historical discipline in the allocation of capital. While uncertainty continues to exist within our broader operating environment, the combination of our strong market position, portfolio of mission-critical regulatory and compliance offerings backed by our deep domain expertise, and financial flexibility position us well.

Before we open it up for Q&A, I'd like to thank the DFIN employees around the world. Now with that, we're ready for questions.

Question and Answer

Operator

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

Charles S. Strauzer
CJS Securities, Inc.

A couple of questions. First on guidance. If you could maybe expand a little bit more on the underlying assumptions for Q2? And what are you seeing, kind of, in the external markets?

David A. Gardella
Executive VP & CFO

Yes, Charlie, it's Dave. Thanks for the question. I think from a transactional perspective, we said the guidance includes somewhere in the range of \$40 million to \$45 million, up significantly from last year's second quarter. I think when you look at what we saw in the first quarter this year, just over \$50 million, that started to soften, as we mentioned in the prepared remarks that January and February started out pretty nicely and then March was much softer with just some of the broader geopolitical uncertainty.

And so far, we've seen that continue throughout April and into May here. And so I think it's just kind of taking a cautious approach on when that might come back.

I don't know, Craig, do you have anything to add to that?

Craig D. Clay
President of Global Capital Markets

Yes. Dave, maybe just to put an explanation point on March. It was a real turning point. Only 2 times in history have filings declined sequentially from February. The first time was COVID, 2020, and now the second is March of 2026. It just underscores how quickly volatility can change issuer behavior.

As you turn to April and May, as Dave said, we're cautiously optimistic. It is building back. There have been 12 large IPOs that have priced in April, which is a nice number of \$100 million-plus IPOs. Our share of that was 67%. So it highlights both the market share gain as well as the improved conversion as these issuances are accelerating again. I think another important note, most of those issuers have adopted ActiveDisclosure as their platform post-IPO. It reinforces the durability of these relationships beyond the transaction itself into contracted, recurring revenue.

There are 2 IPOs in April that I think are giving the market some foundation. Madison Air, the largest IPO of the year. They used ActiveDisclosure for their IPO, as Dave and Dan mentioned in the remarks. This transaction has really anchored April and hopefully gives the market some confidence. The next one is Arxis, a defense contractor, \$1.1 billion IPO in April; again, furthering the investor appetite. DFIN is proud to have supported 3 of the 4 one-billion dollar plus IPOs this year; Madison Air, Forgent and Arxis. And their aftermarket performance has been pretty good.

This week and next week's calendar of IPOs that have said they expect to price is continuing to build. If all of this moves forward, it will equal Q1 for deals over \$100 million. So DFIN has a robust pipeline of companies that have confidentially filed that are working through the process. We have a nice pipeline of IPO RFPs. It suggests a normalized calendar as we move into likely the second half of 2026.

Charles S. Strauzer
CJS Securities, Inc.

Great. And just on the M&A side, clearly seeing some pick up there with the kind of benign DOJ, FTC kind of eye on things. Are you seeing things kind of percolating behind the scenes too on that front?

Craig D. Clay

President of Global Capital Markets

Yes. DFIN's M&A business is a great opportunity. We deliver end-to-end support from the deal ideation through announced, through public or private disclosure. Our virtual data room and M&A offering highlights how we support our clients from that early diligence through execution. Q1 was certainly dominated by a few mega-deals, same issues with March that we talked about with IPOs. And as you look at April and May, M&A momentum remains real, but I think narrow. We are seeing pitch activity and opportunity creation trending positively.

Some of the same things you mentioned, we're excited about the future impact of that. I mean, buyers are certainly prioritizing certainty right now. And the Venue forecast is to grow modestly. We had a large deal in Q2 of 2025. And as Dan noted earlier, we're encouraged by the in-market performance of our new Venue. We believe we're positioned to capture this incremental demand going forward. When we say we have the newest Venue, it to me means we're acting as the disruptor. It's been built from the ground up. We're a strong #3 in that marketplace, and we are positioned to take share as clients modernize their disclosure. So we're cautiously optimistic in the same way of M&A building throughout 2026.

Operator

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

Kyle David Peterson

Needham & Company, LLC, Research Division

Great. I wanted to ask a little bit, specifically on some of the SEC proposals on semiannual reporting. I know there's a lot of different puts and takes and that it seems like you guys have some insulation there. But any color you guys could give or thoughts on the impact if this does go through and gain a fair amount of adoption with U.S. issuers, would be really helpful.

Craig D. Clay

President of Global Capital Markets

Yes. This is Craig. We're closely monitoring, obviously, that development, again, moving from quarterly to semiannual. The SEC proposal is sitting with the Office of Management and Budget. That will be returned to the SEC, we expect any day now. And soon after that, the proposed rule is expected to be posted for public comment.

Chair Atkins has commented several times on semiannual reporting. He's considering doing this for smaller companies where perhaps semiannual might be more appropriate for them. It's unknown what the proposed rule will be. At this stage, whether it's semiannual or not, we likely will see as much, or equal, or more disclosure. Whether the SEC continues to require quarterly earnings 8-Ks for large accelerated filers remains to be seen. You also have to weigh how the public debt obligation will weigh into this. If a company has public debt, they have to report quarterly. Likely, it's just easier to continue with that process.

You can look to Europe. Companies there are given a choice. About half are doing semiannual. If they do that, they often are doing quarterly calls, quarterly disclosures that are as large or as comprehensive as before. What the actual adoption is going to be and what the proposal is, we don't know. But what is important is the vast majority of our 10-Qs are prepared in ActiveDisclosure, which operates on a subscription model with long-term contracts and that subscription model helps insulate us from changes in filing frequency.

So again, closely monitoring it. We think, again, any regulatory change is a positive for us.

Kyle David Peterson

Needham & Company, LLC, Research Division

Okay. I appreciate the color there. That's really helpful. And then maybe I wanted to switch over into the softness you guys talked about on the 8-K filings. I apologize if I missed this, but I guess like could you guys give any more color on what has driven the softness? Is there actually less activity? Or is there more competition? Or I guess, like what's the delta there?

Craig D. Clay

President of Global Capital Markets

Go ahead, David.

David A. Gardella

Executive VP & CFO

Yes, I was just going to say it's really tied, the 8-Ks associated with the capital markets transactions, right? So the ancillary filings as the transactions progress. And so we characterize the 8-K as a compliance filing, right, separate from the transactional activity. But there is some kind of carry-on effect of the lower transactional activity in the market down to some of these 8-Ks and the like.

Kyle David Peterson

Needham & Company, LLC, Research Division

Okay. Thank you for the color. And then I guess just last one for me. The SG&A did run a little high this quarter. I know it sounds like there was some additional selling expense. I guess looking at the implied expense guide for the second quarter, it looks like you get some efficiency back. And I know you guys mentioned some other cost savings. So I guess like -- was there any timing things on that extra selling expense? Or is that the benefit of the cost savings that are already starting to kick in? Just any more insight or context into what's driving the operating leverage would be very helpful.

David A. Gardella

Executive VP & CFO

Yes. So I'll take that one, Kyle. I think when you look at the SG&A, certainly, like you said, up modestly year-over-year. I think when you look at it as a percent of sales, right, down modestly. So it's a lot driven by the mix of revenue coming through, right, with the higher software sales tends to have higher gross margin, which we saw in the quarter, up 40 basis points. And then I think when you look at the SG&A line, some additional SG&A comes in. But all in, the 50 basis points of EBITDA margin obviously contemplates all that, and really driven by the mix.

From a timing perspective, I'd say nothing abnormal. There's always some small puts and takes, but nothing outsized in the quarter. And then I think based on the guidance that we gave for Q2, probably a fairly similar trend in terms of SG&A dollar – a year-over-year dollar modest increase, and the SG&A as a percent of sales is pretty close to constant to last year.

Operator

Your next question comes from the line of Charles Strauzer with CJS Securities.

Charles S. Strauzer

CJS Securities, Inc.

Just a quick follow-up. Just on the conversation you guys are having about AI earlier, what's the general appetite from your client base in terms of inquiries about AI offerings that you may have or planning to have? It seems that AI tools could be a very highly complementary fit for the underlying software programs that you guys have as well as the transactional side as well. Any thoughts there?

Daniel N. Leib

President, CEO & Director

Yes. Thank you, Charlie. I can start off. Yes, I think it's multifaceted and it's something we're experimenting with. Specific to the question on client interest, I would say the interest is really high, as it is across all industries. And then as we've rolled out Active Intelligence and have been able to get insights from our clients as well, clients want to be absolutely sure from a security, governance, and data perspective that everything is secured. There'll be no leakage. Obviously, as we mentioned in our prepared remarks, the work we do from a compliance standpoint needs to be 100% correct. So that is also a consideration.

But like all elsewhere in corporate America, extremely high level, we're looking at it on the internal side, where we can break it into three buckets. On the internal side, we rely a lot on our vendors who have incorporated artificial intelligence within their offerings. For things that are proprietary for DFIN on the internal side, we're actually looking at our own opportunities to build and drive efficiencies, serve clients better. And then on the product side, we view it as not a feature, but a core part of the offerings with all my comments around the needs for governance, security, et cetera. But certainly not going away any time. We think there will continue to be advancements that will be helpful to us. We've talked a bit, I think, on our last call about vertical software and then the service that wraps around it. That is helpful and can thrive in an artificial intelligence environment.

And see if anyone else on the team wants to weigh in further.

Craig D. Clay

President of Global Capital Markets

Dan, I'll add just some context on Active Intelligence. So Active Intelligence is in the market and clients are not relying on DFIN simply for a tool, but for an outcome. And we really see that playing out with Active Intelligence, our AI capability embedded in ActiveDisclosure. It's streamlining client research, comparison, and analysis of SEC filings. A client recently said to us that they used Active Intelligence for their 10-K, it quickly proved its value. The peer analysis surfaced disclosure that the client hadn't traditionally included. And so having this visibility across peers built confidence in their decision to trust in that disclosure.

So artificial intelligence at DFIN and in ActiveDisclosure is really a force multiplier. It's embedding it into our mission-critical compliance workflows. We're really strengthening the clients' trust. We're increasing switching costs and reinforcing our position at the center of that. ActiveDisclosure is a system of record embedded in this high consequence workflow. So it's a real awesome opportunity for us to be at the center of this, where accuracy and trust are nonnegotiable, and we think that we're positioned to become even more essential.

Operator

There are no further questions at this time. I will now turn the call back to Dan Leib, CEO, for closing remarks.

Craig D. Clay

President of Global Capital Markets

Dan, over to you.

Daniel N. Leib

President, CEO & Director

Thank you, Kara, and thanks, everyone, for joining. And we look forward to connecting in the near term, and I will pass it back to Kara to close it out.

Operator

Thank you. This concludes today's call. Thank you for attending, and you may now disconnect.

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