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CORPORATE PARTICIPANTS

Adam David *Pitney Bowes Inc. - VP of IR*
Marc B. Lautenbach *Pitney Bowes Inc. - President, CEO & Director*
Stanley J. Sutula *Pitney Bowes Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Allen Robert Klee *National Securities Corporation, Research Division - Research Analyst*
Ananda Prosad Baruah *Loop Capital Markets LLC, Research Division - MD*
Kartik Mehta *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*
Shannon Siemsen Cross *Cross Research LLC - Co-Founder, Principal & Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes First Quarter 2020 Earnings Conference Call. (Operator Instructions) Today's call is also being recorded. (Operator Instructions)

I would now like to introduce participants on today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President, Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations. Mr. David will now begin the call with a safe harbor overview.

Adam David ***Pitney Bowes Inc. - VP of IR***

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our earnings press release, our 2019 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations.

Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments. Also, for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website.

Additionally, we have provided slides that summarize many of the points we will discuss during the call. These slides can also be found on our Investor Relations website.

Now our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Good morning. I hope everyone is staying safe and in good health. Clearly, we are all operating in an unprecedented times and unchartered territory. The COVID-19 pandemic has increased uncertainty around the world, impacting the economy, business, supply chain and customer demand. It is important to note that business is engaged in mailing and shipping, which obviously includes Pitney Bowes, have been designated an essential service by the Department of Homeland Security. The sending of mail and parcels is critical to our economy.

In the first quarter, through the disruptions and distractions, Pitney Bowes processed about 34 million domestic parcels in our e-commerce business and 4.6 billion pieces of mail in Presort. Some of this came at a higher cost, but we understand how vital a service this is for our clients.

This morning, I'd like to discuss our first priority, which is around the health, well-being and safety of our workforce, clients, partners and suppliers. Then I will take you through where we stand today as a company, financially and operationally. Stan will then take you through how we are addressing the impacts of COVID-19 throughout the business, our first quarter results and where we are through the end of April.

For our part, we continue to take the necessary and required steps to ensure our work environment and employees are safe and healthy. We have business continuity plans in place that are designed to address various threats and vulnerabilities, including a response to pandemic, high absenteeism and an emergency response methodology. We have specific protocols in place if an employee becomes infected with or exposed to the virus, and we have adjusted our sick leave policies so employees can get paid but do not have to use their sick time if they're asked to self-quarantine.

Our senior leaders are communicating with their teams on a daily basis and are openly available to address concerns. Importantly, each of our businesses have been up and running through this situation. Employees that can work remotely are doing so. Within our facilities, we are providing protective masks and conducting temperature checks in higher risk locations. We're also enforcing safe social distancing and sanitizing equipment in the facilities multiple times a day.

Let me now turn to the state of our business and where we stand today. As we have consistently communicated, Pitney Bowes continues to be committed to maintaining a strong balance sheet. Throughout '19 and earlier this year, we took a series of actions to strengthen our balance sheet by reducing debt and improving our liquidity. In 2019, we executed the sale of our Software Solutions business, reduced our debt by over $525 million and renewed our revolving credit facility. To date, in 2020, we have reduced debt by an additional $110 million and refinanced our near-term debt maturities, which materially reduced our debt towers through 2024.

Collectively, these actions, combined with the underlying strength in our SendTech cash flows, have made our debt structure more manageable in the upcoming years, and we are performing comfortably within our covenants. While we certainly did not predict this crisis, we took these actions precisely to derisk and deleverage the business and to ensure our balance sheet held up in the case there was an economic downturn.

While we are maintaining a strong liquidity position, we're also taking other actions within our capital structure to preserve cash during this time. We are reprioritizing our capital needs around essential and necessary investments. We will continue to invest in our shipping capabilities, platforms and e-commerce facilities as well as necessary investments in new product technology that will continue to support our long-term objectives. However, by reprioritizing, we can defer a portion of our discretionary capital spend in 2020. Given the economic environment, we are taking a prudent and sound approach to building out our financial services business. In addition, we will limit M&A and ensure our variable spend is in line with demand. Assumed in our cash flow scenario plan for the year is maintaining the annual dividend and do not plan to repurchase shares in 2020.

Let me spend a moment here to frame our operational business model. While our segments play in different markets, there are 3 commonalities among them. First, each provides an essential service to their clients and is a critical part of their operations, be it helping to either deliver important documents, invoices, statements and/or parcels. Second, we have made significant investments in each segment to improve the products and services we offer. And finally, we offer different financing options and services across all of our business to help our clients manage their cash flows, which is vital, especially during times like these.

Within our legacy business or SendTech, we have invested in our SendPro family of products which operate on a modern, open platform and uses technology that positions us well to serve our clients for their mail and shipping needs. We continue to see our new offerings revenant with clients. Our SendPro Online and SendPro Enterprise products enable clients to continue to send bills, statements and parcels, even as they need to work remotely.

In addition, we have just introduced to the market our SendPro Mailstation, a new solution for both small office clients and large enterprises with distributed or home-based workforces. It is the first and only meter device in the industry to utilize postage in the cloud capabilities and is a part of an integrated mailing and shipping solution that extends the SendPro family of products. It is important to note that approximately 2/3 of SendTech's revenue is recurring in nature and higher margin. SendTech makes up the majority of the company's cash flow and the nature of its recurring revenue is an important contributor.

Our Presort business is an example of how our enterprise clients come to rely on us to process their First Class and Marketing Mail letters and flats as well as their bound printed matter both timely and efficiently. We've grown this business over the last few years against a market that is in decline, which is testimony to our strong value proposition and market position. The bulk of our Presort business is in First-Class Mail, which comprises bills, statements and similar business communications. Although we are seeing modest declines there, the more dramatic declines have been the Marketing Mails.

In e-commerce, we continue to bring value to our retail and marketplace clients to satisfy their shipping needs. Over the last several years, we've invested and built this business to now be over $1.1 billion of revenue which has been critical to Pitney Bowes' overall transformation and has moved us solidly into the adjacent shipping space. It is difficult to predict with any accuracy how e-commerce demand will play out during this time, but we will continue to ensure that we are delivering this essential service to our clients.

We might expect an accelerated shift to e-commerce sales. On the other side of the ledger, I think it is fair to expect cross-border transactions to be negatively impacted in the near-term due to severely restricted flights. We may also see consumer purchasing be depressed for a period of time due to the economic uncertainty. Over the past several years, we have made significant investments in our products, platforms, people and portfolio. It is the investments that we have made to transform our portfolio and the adjacent services we provide that allow our clients to recognize the value we bring to the business.

But let me leave you with this. In April, Pitney Bowes marked a major milestone by reaching 100 years. We have certainly seen our fair share of times of crisis, offset by many more times of prosperity. The COVID-19 pandemic has disrupted every aspect of life and our commitment to supporting our communities has never been stronger. During these challenging times, our team is working through ways to support those in need.

We are supporting the Business Roundtable's effort in addressing this public health crisis with a donation to Project HOPE to source personal protection equipment from global vendors. Project HOPE will then work with nonprofit health care nonprofit Healthcare Ready to allocate the PPEs to the medical community in conjunction with the Federal Emergency Management Agency. We have donated re-imaged laptops for online learning and have committed funds to our partners at the United Way and Fairfield Community Foundation as well as the Stanford Hospital.

During this time, thousands of women and men across Pitney Bowes are playing a critical role in the economy by keeping mail and parcels moving, by keeping our clients' equipment running and by keeping our supply chain flowing. I want to take this moment to acknowledge and thank our employees for their incredible work. They each are performing under very difficult circumstances. In the same way, we salute the many selfless essential workers that are helping our country through this difficult period.

Through the last 100 years, we have prevailed as a company by having a clear vision and strategy, but what has sustained Pitney Bowes is our character. There's a certain resilience and grit to this company, which enabled us to endure. The grit is built on a culture of innovation that has created and recreated this company many times over and is helping us recreate the company again today. Likewise, our country, as it always does, is demonstrating resolve and innovation that will get us to the other side of these incredible challenges. It is time like these when our true grit and ingenuity are tested, and during these times I am proud of how our team rises to the occasion to keep moving forward and get Pitney Bowes bows to its next 100 years.

With that, let me turn it over to Stan.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Thank you, Marc, and good morning. I share Marc's sentiments and hope everyone is staying safe and in good health. And while there are a large number of things going on, our primary focus is the health, well-being and safety of our employees. Our clients, partners and communities remain our highest priority during these uncertain and unprecedented times.

Before I turn to the quarter, I'd like to first spend some time drilling down into some of the areas Marc discussed. First, our liquidity position. We ended the first quarter with $730 million in cash and short-term investments on our balance sheet. Total debt is $2.6 billion, which is down $625 million from a year ago. Of our total debt, $1.1 billion is associated with our finance receivables. Taking this all into consideration, our implied net debt position on an operating company basis is roughly $0.8 billion.

We have taken several actions and made significant progress in strengthening our balance sheet over the last few years, but especially over the last 9 months. Since the beginning of 2018, we have reduced our debt by $1.2 billion. Renewed our credit facility, and utilizing cash on hand and new issuance proceeds, we materially reduced our debt tariffs through 2024, putting our debt in a very manageable position over the next several years with no bond maturities to address until October 2021.

We are also performing within our covenant and have stress tested these ratios under multiple scenarios to ensure we maintain access to adequate liquidity. We have drawn down $100 million of our revolving credit facility. We continue to have access to the remaining balance of $400 million and are in compliance with all the financial covenants contained in our credit facility. We believe that the drawdown was the prudent thing to do at this time, and there are no immediate needs for the fund. As such, this drawdown will be invested in short-term instruments.

Looking at our capital allocation and uses of cash, we are reprioritizing our capital needs around essential and necessary investments to support our long-term objectives. By reprioritizing, we are estimating that we can reduce our discretionary capital spend by $30 million to $40 million, which is about 20% to 30% lower than our original plan.

Within Wheeler Financial, given the economic environment, we are taking a sound approach to building out our financial services business. We expect new originations to be no more than $25 million in 2020 as compared to our original plan of $80 million. This is the right thing to do at this time and will improve our free cash flow for this year. We remain committed to building out our financial services over the long term, and we will continue to be prudent when it comes to committing capital. Assumed in our cash flow scenario planning for the year is maintaining the dividend at an annual run rate of $34 million.

We are limiting M&A transactions and will not repurchase shares in 2020. We are focusing on working capital, specifically receivables, inventory and payables. We anticipate an impact on collection as we work through payment terms with some of our clients and are managing our inventory levels and the timing of our payments.

Let me now provide some color on how this is impacting each of our businesses. Within SendTech, our clients rely on our products and services to help them send essential invoices, statements, documents and parcels. SendTech's recurring revenues are high margin and materially contribute to the company's overall cash flow. However, the onetime revenues largely around equipment sales and, to a lesser degree, a portion of our supplies financing services are negatively impacted as they are more closely linked with demand and usage.

Within our lease portfolio, approximately 40% of our clients are middle market, large-cap and municipal accounts, and the other 60% are small business, of which roughly 2/3 is comprised of professional services, health care, finance and insurance. Having a broadly diversified client base across multiple industries is an important factor when managing through these economic cycles. We have experienced economic downturns with this portfolio. And during the last financial crisis, we adjusted payment terms and services to further help our small- and medium-sized clients with their cash flow needs. During that period, we saw write-off rates within our U.S. financing portfolio increase to between a 2% and 2.5% range, which is up from our normal trend of around 1%, but well below the industry average, reflecting the strength of our portfolio and essential service we provide to our clients.

We are monitoring delinquency rates daily. At this point, it's too early to determine the impact of potential write-off levels. We're working with certain clients to offer hardship programs or adjust other terms in order to help them with their cash flow needs and maintain our relationship. Also in SendTech, we are managing our supply chain to prioritize what we need to receive and when based on demand. We saw a minor impact to our revenue in the first quarter as a result of this, but expect supply to improve in the second half of this year.

Our Commerce Services businesses are more demand-driven. Within Presort, we are tracking First Class and Marketing Mail volumes daily. On average, 80% of the volumes we process in Presort are First-Class Mail, which we are now starting to see a low single-digit decline from prior year levels. The remaining 20% is mostly related to Marketing Mail, which we are seeing significant declines as clients react to market demand and reduce spend.

Within e-commerce, there are different dynamics to domestic and cross-border demand. Domestic demand, primarily around delivery and fulfillment, along with digital volumes, held up in the first quarter. However, the timing of demand for our domestic deliveries from our Chinese clients changed in the quarter as a result of the COVID crisis. These dynamics created different mix and negatively impacted margins in the quarter, partly due to the difficulty in predicting client demand and hence, adapting staffing levels accordingly. Within our cross-border business, we experienced a decline in demand, along with higher transportation costs, due to the restrictions on international shipments.

In our drive to improve profitability in our e-commerce business, we have taken a number of actions. We implemented a general price increase entering 2020 and are taking targeted pricing actions where possible to continue to improve our yields. We are driving a series of productivity actions across the business, including the consolidation of facilities to take advantage of the flagship building we opened at the end of 2019, New Jersey and California, investing in automation within our facilities and in our transportation management system, which will improve our cost per unit.

We are seeing some of the benefits from the structural actions we took late last year and continue to take incremental actions to improve our SG&A. These actions are critical on our path to profitability and are needed to address the continued shift in market opportunity along with the productivity challenges around COVID-19. We expect these actions to improve our efficiency and effectiveness while continuing to bring value to our clients.

Within both our Presort and e-commerce businesses, we have some flexibility to adjust variable costs, primarily around temporary labor based on demand. There is a certain level of fixed costs related to our facilities, full-time employees and transportation that is required to maintain regardless of demand. We actively manage all variable components, including working with clients on service times and consolidating facilities in certain markets to help the productivity and reduce costs. Within both businesses, COVID-19 is impacting labor productivity as the health, safety and well-being of our employees is a top priority. When necessary, we are able to redirect mail and parcels to different facilities within our network which also comes at an increased cost.

Overall, as a company, we are aggressively managing all discretionary spends. Naturally, things like travel, conferences, third-party spends and unfilled nonessential positions are frozen. And we will get savings there. We are also reducing marketing programs and taking staffing actions across the company. We'll continue to address our spend based on market conditions and are evaluating this on a weekly basis.

As previously mentioned, we also have actions in place around CapEx. We are limiting M&A. We do not participate in any share repurchase and are limiting new originations through Wheeler Financial, in addition to taking actions around temporary labor. COVID-19 impacts us in different ways in each of our businesses, and we are monitoring metrics regularly. That being said, based on the level of uncertainty around the depth and duration of COVID-19, in addition to the impact on clients, consumer demand and suppliers and how it may ultimately impact each of our businesses, we are suspending guidance for the current financial year.

Let me now take you through our first quarter's results and discuss some of the trends we are seeing through April. As in the past, unless otherwise noted, my statements going forward will be on a constant currency basis when talking about revenue comparisons and on an adjusted basis when talking about earnings related items, including cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the financial statements posted with our earnings press release and on our Investor Relations website.

Before I get into the details of the quarter, it's important to note that similar to banks and other companies with a financing arm, we increased our credit loss reserves to be in compliance with the new CECL accounting standard. Effective January 1, this resulted in a $25 million increase to our credit reserve, which was recorded as a cumulative catch-up to retained earnings. In addition, to reflect the rapidly changing macro environment conditions resulting from COVID-19, we updated to a 100% recessionary case and increased our provision for credit losses, resulting in a negative impact of $11 million or $0.05 of EPS for the first quarter.

Let me take you through the quarter in more detail. For the first quarter, revenue totaled $796 million, which was flat to prior year. When you take into consideration the market exits which we completed in the first quarter of last year, revenue grew 1%. Adjusted EPS was $0.05 for the quarter. GAAP EPS was a loss of $1.22 and includes a $0.16 charge for the extinguishment of debt, $0.02 for restructuring costs and a benefit of $0.06 for discontinued operations. In addition, GAAP EPS includes a noncash $1.15 goodwill impairment charge related to the Global Ecommerce business as a result of the macro environment conditions along with our recent operating experience.

Also, as I discussed, the COVID crisis had a negative impact throughout our business in the quarter, in addition to the $0.05 charge related to our increase in credit loss provisions. Free cash flow was a use of $47 million and GAAP cash from operations was a use of $66 million. Compared to prior year, the decline of free cash flow was driven by higher accounts payable and accrued liabilities, of which roughly 2/3 of this was timing related, in part due to the acceleration of interest payments related to the tender offer completed in the first quarter. Free cash flow versus prior year was also impacted by lower runoff of finance receivables.

I discussed our capital position at the onset of my remarks, but let me briefly recap where we are through the end of the first quarter. At the end of the quarter, we had $730 million in cash and short-term investments on our balance sheet. During the quarter, we used free cash flow to return approximately $9 million to our shareholders in the form of dividends. We made $6 million of restructuring payments and spent $26 million on capital expenditures.

Wheeler Financial funded $3 million in new originations in the first quarter, bringing the total fund to $17 million since the inception of Wheeler last year. From a debt perspective, we lowered debt by $110 million from prior year and ended the quarter with $2.6 billion in total debt, which is $625 million lower than prior year. As I discussed earlier, our implied net debt position on an operating company basis was $0.8 billion at the end of the quarter.

Turning to the P&L, starting with revenue performance by line item as compared to prior year. Business services grew 9%. We had declines in support services of 5%, financing of 8%, supplies of 10%, rentals of 14% and equipment sales of 15%. Gross profit was $306 million with a margin of 38%. This is a decline of 4 points from prior year, which largely reflects the shifting mix of our portfolio and decline in e-commerce margins in the quarter.

SG&A was $248 million or 31% of revenue, which was a decline of $13 million and nearly 2 points as a percent of revenue from prior year. Our R&D expense was $12 million or 1.5% of revenue, which was slightly down from prior year. EBIT was $49 million and EBIT margin was 6%. Compared to prior year, EBIT declined $17 million and EBIT margin declined by 2 points, driven primarily by the gross profit decline, which was partly offset by the improvement in SG&A.

Interest expense, including financing interest expense, was $38 million, which was slightly down from prior year. The provision for taxes on adjusted earnings was $2 million, and our tax rate for the quarter was 18%, which includes a resolution of certain tax examinations in the quarter. Weighted average shares outstanding at the end of the quarter were 171 million, which is about 15 million shares lower than prior year, reflecting the share repurchase completed in 2019.

So let me now discuss the performance of each of our business segments this quarter and what we are seeing through April. In our Commerce Services group, revenue was $433 million, which was growth of 8% over prior year. EBIT was a loss of $14 million and EBITDA was $12 million. Within Global Ecommerce, revenue was $292 million, which was growth of 10% over prior year. We entered the year with strong momentum, generating revenue growth of 12% through February, which slowed to 6% in March. Delivery and return volumes for our domestic parcel services grew 11% to 34 million parcels in the quarter, driven by the strong growth in deliveries, offset by a decline in return volumes. As such, the revenue growth continues to be driven by deliveries and fulfillment.

Our digital shipping API volumes more than doubled from last year, and we continue to see a strong take rate on this offering. Our cross-border revenue grew for the quarter. This was largely driven by a large client utilizing our cross-border logistics services who have since suspended shipments since mid-March due to COVID-19. Our border-free retail marketplace volumes were relatively flat through February, but saw a sharp decline in March as the COVID crisis ramped resulting in lower demand and higher transportation costs due to restriction on international shipments.

Looking at EBIT, we recorded a loss of $29 million in the quarter, and EBITDA was a loss of $11 million. The loss was primarily driven by the mix of the business. Within our domestic parcel services, we continue to see delivery and fulfillment revenue outpace return, where returns operate at a higher margin and, therefore, the overall margin is shifting. Additionally, we are seeing a shift in the mix within our delivery volumes, where we are processing a higher percent of lightweight parcels, which tend to be at a lower margin than some of the heavier parcels. In addition to mix, we have higher costs as a result of our continued investment.

Our new flagship facilities on the East and West Coast are now fully operational for processing parcels and ramped up on volumes throughout the quarter. These are large facilities that we did not have in operation at this time last year. We are in the process of consolidating volumes from other sites into these new facilities, but in the meantime, are incurring incremental costs versus prior year and quarters.

As mentioned, COVID-19 impacted revenue and drove lower productivity in the quarter, which was in part due to the difficulty in accurately predicting demand by clients and flexing labor accordingly. In addition, we implemented CDC guidelines around social distancing at each sorting facility and incurred higher costs related to sanitizing facilities, staggered break and shift scheduling as well as health and temperature screening. We also increased our credit reserves as a result of COVID-19 and to comply with the new CECL accounting standard.

As we look ahead, there is still uncertainty around consumer demand and the impact of volumes due to the unknown severity and duration of the COVID crisis. In April, domestic parcel deliveries are growing in excess of 40%. We continue to see a higher percent of lightweight parcels. Digital deliveries continue to grow at strong double-digit rates. Our fulfillment volumes, with the addition of several large clients, has more than doubled. However, returns in cross-border volumes are declining approximately 20%.

We have adjusted our temporary labor based on demand, but we are also addressing a higher level of absenteeism related to COVID. We continue to drive productivity and pricing improvements, as our facilities continue to practice safe social distancing and sanitize regularly, which comes at a cost to productivity. The health and well-being of our employees remains a top priority as we have thousands of employees working in these facilities.

Within Presort Services, revenue was $141 million, which was growth of 4% over prior year. The revenue growth was driven largely by the investments we made in acquisitions in 2019, which drove 3 points of the growth in the quarter along with higher revenue per peak. EBIT was $16 million and EBIT margin was 11%. EBITDA was $23 million and EBITDA margin was 17%. This represents flat margins versus prior year. EBIT and EBITDA growth versus prior year were negatively impacted by $4 million from unrealized losses on certain investment securities, driven by changes in financial markets. Excluding this, the margins would have been higher by 2 points over prior year. We remain focused on our productivity initiatives. And as a result, labor cost per unit improved by 3% compared to prior year.

The disciplined management actions we have taken and investments we have made over the last 2 years continued to yield positive results. Compared to the prior year, we improved pieces fed to our equipment per hour resulting in 115,000 less hours to process 143 million more mail pieces. Our Presort business saw a significant impact on Marketing Mail volumes from COVID-19 during the first quarter. First-Class Mail volumes were minimally impacted, in part due to the timing of volumes already scheduled to be processed. As you recall, the first quarter is typically our largest processing quarter as the New Year typically sees an increase in statements and important documents. There was some impact to our productivity in our facilities for the same reasons we saw in e-commerce. Similar to e-commerce, it is difficult to predict how client demand will evolve as this COVID crisis continues.

Through the end of April, First-Class Mail volumes are declining at a low single-digit rate and Marketing Mail volumes are down from prior year in the 30% to 40% range. We will continue to drive productivity. However, this will be partially offset by our actions to ensure the safety of our workers within our facilities and as we redirect mail between sites when needed due to the COVID situation.

Turning to our SendTech segment. Revenue was $363 million, which was a decline of 7% from prior year. We entered the year with good momentum in the business. Through the end of February, our global shipments, which is the leading indicator for equipment sales, was down only 2% from prior year. In March, as the COVID-19 situation ramped up, we saw a steep decline of nearly 40% in global shipments. This resulted in equipment sales being down 15% for the quarter.

We indicated on our last call, supply chain was impacted by COVID-19, which was also a contributing factor to the lower equipment sales, mostly as we are unable to source certain components for our higher end products. Supplies through the end of February were down 7% from prior year, but ended up being down 10% for the quarter, again, as we saw a steep decline in the month of March. Rentals, financing and support service revenues declined but were partly offset by higher business services. EBIT was $107 million, EBIT margin was 29%. EBITDA was $116 million and EBITDA margin was 32%. EBIT and EBITDA margins were negatively impacted by $10 million as a result of the increase in credit loss provisions to reflect the current macro environment conditions resulting from COVID-19 in connection with the application of the CECL accounting standard.

We continue to see the impact of COVID-19, particularly on the transactional side of our business. Through April, we are seeing the equipment sales trend from March continue with U.S. written business down approximately 30% and continued delays in installations, which will impact revenue recognition. We are seeing a similar decline in supplies, largely as a result of lower consumption. We continue to monitor delinquency rates on a daily basis and have seen a slight uptick through the month of April. Most of our SendTech clients are billed quarterly, with the last month of the quarter typically being our largest billing cycle, making it too early to draw any conclusion on delinquency and write-offs.

Our supply chain is prioritizing fulfillment based on demand, but still operating on a delay through the month of April. We are working closely with our partners and suppliers and anticipate this will normalize in the second half of this year.

Before we take your questions, let me briefly recap. We exited the first quarter with $730 million in cash and short-term investments on our balance sheet. We have drawn down $100 million against our credit facility and have access to the remaining balance of $400 million. We have no bonds coming due until October of 2021. We are also taking actions within our capital structure and across the business to preserve cash during this time. As I mentioned at the onset of my remarks, based on the level of uncertainty around the depth and duration of COVID-19, in addition to the impact of each of our businesses, we are suspending guidance for the current financial year. We are monitoring operations, metrics and trends on a daily basis in order to take the appropriate actions in a timely manner.

With that, we will now take your questions. Operator, please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Kartik Mehta.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

Marc, I wanted to -- I know you gave some thoughts about what happened -- what's happening in April. I'm just wondering if you could give maybe a little bit more granularity around businesses, at least trends you saw in April. I know you provided some for Global Ecommerce, but I'd be interested in what else you're witnessing out there.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Yes. I'd be glad to. So if you start with SendTech, I would say that customers are starting to be a little bit more acceptable. So if you think about what is required to consummate a sale and given that many of our clients were working at home, the first is you got to be able to find them. So I would say, in March, what we saw in the last couple of weeks is our contact rate with clients, read that as telephone calls that actually reach a client, were pretty low of what you would see in April as those contact rates were kind of back at reasonable levels at or above pre-COVID. If you look at contracts out, it was slightly below average, but again stronger than March levels. If you look at how all that comes together, I would say, our written business, which is getting customer agreement, was better than end of March. Our shift was better than end of March. Our installed was consistent with the end of March, and that's simply because of the difficulty of getting service people on-site to install the equipment. So that's kind of how April laid out versus March. Let me pause there and see if that makes sense and I'll move on to Presort.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

Yes. No, that makes sense. I was just wondering, Marc, in the SendTech business, is the biggest issue net adds for you currently just because we might see an increase in small businesses, unfortunately, going out of business?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

No. The biggest -- well, it's a combination -- I mean, sorry, actually, if you look at our net adds in first quarter as well as April, read that as new customers. Because of some of the new products that we have introduced, read that as some online products, which certainly are appropriate, given the number of clients that are working from home as well as our low-end products, we're adding a fair amount of new customers. So no problem there. The concern over time is, what you said kind of embedded in the second half of your question is, customer bankruptcies. So far, if you look at, to kind of unpack what stands at about delinquencies and the number of clients that we're talking about in terms of different terms, I would say it's a de minimis amount relative to the size of the balance sheet. That being said, we're early stages in this. So I think it's -- the biggest vulnerability to answer your question is our installed base and customer bankruptcies. But again, so far so good. And if you look back on 2008, 2009 has been referenced, we performed better than the industry. So that's SendTech.

Presort, I would say, as Stan characterized it, reasonably well, if you look at the mix of our business that's First Class is 80%, that was kind of down low single digits, which is better than USPS by a reasonable amount and then Marketing Mail, which was down fairly substantially, read that as 40% to 50%. So those trends have basically been the same March to April, not a huge difference. I think the interesting one, and if you look at Global Ecommerce, if you look at our domestic network, it's operating at peak levels. So think of October through December, the holiday season and all of the stress and strain in e-commerce networks and that's the kind of volume we're seeing right now, and that volume continues to be growing. So it's -- the domestic network is at capacity.

If you look at the digital business, read that as the API business, we're continuing to see triple-digit year-to-year increases, which again makes sense. Where we're struggling a touch is on cross-border. What was probably not generally known is a lot of our cross-border traffic flies on commercial flights. So if commercial flights aren't going, then you have to go to a different kind of carrier which is more scarce and more expensive. So that's kind of the April to May trends. Stan, I don't know if you'd add anything.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. No, the only thing I'd add, Kartik, is we saw returns are also down and obviously, that creates a mix issue when you go through EBIT. While we hit the volume numbers, we don't normally share this, but let me do a little bit on the month of April with some preliminary kind of revenue. As you saw, the Global Ecommerce has some good growth in domestic parcels that's driving revenue and we expect that revenue for the month of April would be roughly double digit. And Presort, First Class, as Marc said, the volumes are down low single digit, but Marketing Mail is certainly feeling an impact. And remember, Marketing Mail makes up roughly 20% of our volume. We expect that Presort for the month of April will be down about 10%. And then SendTech, as you go through the impact on the volumes for particularly equipment sales and supplies and that has an impact in the quarter. I want to emphasize a couple of things though. So when you look at SendTech, even a written business when we're signing new deals, we are doing new deals. But until you can get and install them, some portion of our portfolio requires installation for revenue recognition. So we have roughly about $10 million higher than where we were at this point last year -- at the end of the quarter last year of revenue that's under contract that will be installed at some point in the future as those sites open up. But we expect SendTech, driven primarily by equipment sales, to be down roughly about 20%. So if you kind of put that all together for PB for the month of April, we're kind of looking at down high single digits, as we would have expected from the volume mix.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

Stan, that's really helpful. And just 1 last question. Marc, on Global Ecommerce, as you continue to grow revenue, unfortunately, the trends are not going in the right direction in terms of profitability. I realize this quarter had some unique aspects to it because of COVID-19 and some of the increase in expenses. But where do you stand in terms of what you need to get in terms of profitability? In the past, you've talked about number of parcels. I don't know if that's how you still think about it or if there's another metric you're looking at to have an idea as to when it gets to profitability.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Yes. I mean number of parcels is the -- still the ultimate measure of getting to profitability. Underneath that, as Stan mentioned, the mix of the kind of parcels is becoming increasingly more important. So we have kind of a sweet spot in terms of volume for our network. It tends to be smaller parcels, but not too small. So there's 6 or 7 different metrics, but far and away, the most important one is number of parcels. But embedded in that is a lot of productivity measures within the distribution centers. And as Stan mentioned, because of things like temperature check, social distancing, moving volume around and candidly we had 2 sites that we brought online, and we still had the old sites in the first quarter. So there was a lot of moving pieces in the quarter. But we expect the profitability of business to continue to improve this year, and I'm still very optimistic.

Operator

Your next question comes from the line of Ananda Baruah.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

Good to hear that you guys are good. Marc, this -- again, this can be for both of you. Should we -- 2 things, should we use -- I appreciate the April detail, Stan, that's really helpful. I know you're not giving guidance, but does it make sense or would it not make sense for us not to use those April quarter trends as we think about the June quarter? And then do you guys -- Marc, do you think it's -- is it your opinion that the June quarter will be the softest revenue quarter for the year? Then I have a couple of follow-ups after that.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

So let me start with the last question. I certainly expect the second quarter to be more challenged than the first. In terms of how the rest of the year unfolds, your guess is as good as mine and a lot of it depends on the states opening up and how the virus is able to be contained. So as we do our internal modeling, we do think the second quarter is a trough, but it's precisely the reason we suspended the guidance is right now our ability to give responsible guidance at this point as well. In terms of the color on April, I'm not going to tell you how to do your models. We felt in this particular moment that transparency was important for our investors. So it's a data point. And I have a reasonable amount of confidence in our data points a couple of weeks at a time. When you get into June, it just becomes too hard to predict.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

Okay. That's totally fair. And you guys mentioned during the prepared remarks, $30 million to $40 million in lowering of the discretionary spend. A lot of moving parts, but is it -- does it make sense for us to remove that from the cost base?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. That -- Ananda, that comment was around CapEx explicitly. So as we look, we've told you that CapEx runs about $140 million, and we think within that there's a discretionary component. Now I want to reemphasize, we're still going to invest in the business and you see us doing that, but we're going to be prudent about it. So we may make different decisions on cash versus lease. But we believe that within that framework, we can extract about $30 million to $40 million which will preserve cash as we go through. Now there are a number of actions we're taking overall that will help us also conserve cash and reduce spend. So obviously, we're reprioritizing that CapEx. We talked about certainly travel, conferences, all that is done. We have hiring freezes and some other head count actions. We're going to manage our marketing spend to align with where we see the demand. And obviously, we're doing things like consolidating facilities within e-commerce and dealing with third-party spend. All designed to reduce spend and preserve cash until we get some better clarity on how this will play out.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

Got it. That is helpful. And I'm going to -- now I'm going to throw you 1 more anecdotal question -- an anecdotal business question in the context of -- that you guys aren't giving guidance and there's a lot of moving parts. As you guys laid out, is it still possible for the e-commerce margins in the December quarter to be positive? And I'm just trying to develop a framework for ourselves here. Kind of broad strokes how to think about the current programs?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Ananda, so I appreciate the question. I mean it's very difficult to predict what's going to happen here given the uncertainty, which is exactly why we withdrew the guidance. So while we're seeing strong volume growth here, particularly on the delivery side of the business, we believe that we'll get better at fulfillment. And candidly, we saw signs of that. Our margins improved versus last quarter through February. And then as COVID hit, this is a very labor-intensive business that has an outsized effect in the month of March. The team there has -- OpEx is actually down year-to-year. So a number of the actions that they've taken are taking root. We expect the contribution from their productivity actions to more than double in Q2. But the uncertainty around what's going to happen out, and particularly a lot of our clients, our retail clients, and you're seeing what's happening every day when you open up online and look at what's happening in the press, makes that difficult to predict whether or not that will be positive exiting the year. What I am confident telling you is that those actions, I think, will take hold and will deliver improvement. I think we need to see the macro environment, how that settles out. Is this a U, a V or some other shape of recovery?

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***

That's helpful. I appreciate it.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

And to build on that point. I mean it's -- I mean the wildcard in all this, particularly in the retail sector, is how this shakes out. Broadly, what we're seeing is those clients that are kind of born on the net that have digitally native businesses, they're thriving. And conversely, clients that have more of a brick-and-mortar business model, and you see it in the headlines every morning, are struggling. So that's the part. I mean I can kind of tell you how it feels inside of our business, but the broader customer environment is really hard to predict right now.

Operator

(Operator Instructions) Next, we'll go to the line of Shannon Cross.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

I think those involved in the postal stream, whether the workers at the USPS or companies like yours are incredibly important right now and doing a lot of things that are sort of scary behind the scenes. So again, thanks. The question I had, I guess, maybe more for Stan. Just on cash flow, I know you gave some details, but I'm curious as we think about the potential for benefit from finance receivables or how we should think about, in general, working capital to the extent you can talk about it over the next few quarters, whether or not you think it would be a source or use of cash and what the various segments might do?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Sure, Shannon. Thanks. So as we looked at first quarter, we view the majority of this as timing, $17 million versus prior year, but $30 million is timing within 2020. So we expect that we're going to get that back. I think as you consider free cash flow, it's important to keep in mind that one of our strengths is the recurring nature of our revenue and resulting cash flow, in particular in SendTech. So the SendTech revenue is roughly 2/3 recurring in nature and that recurring stream is actually highly profitable. So roughly 3/4 of their profit is recurring in nature. Now equipment sales will be impacted, and I'll get to your point on financial receivables because it's an important one and supplies to a lesser degree, but those streams provide good, reliable cash flow.

Presort and Ecommerce are more volume dependent. When you look at Presort, we talked earlier about there's clearly an impact on Marketing Mail. But First-Class Mail, remember, most of our clients are large banks, insurance companies, they still need to get those invoices and statements out and First-Class Mail is down low single digits. And as I think about the year, let me go into kind of headwinds, tailwinds, and let me start with the tailwinds. So that $30 million of timing, we expect to get back through the year. And then the CapEx, we have a good line of sight on $30 million to $40 million of reduction, and that will also improve free cash flow. And then as you saw from Wheeler, we originated just around $3 million in the first quarter, and we see, obviously, a challenging economic environment. Given that, we expect that those new originations for the year will be no higher than $25 million or so. So that's over $50 million of a benefit to cash flow. Obviously, that cash stays at the bank and can't be used for parent purposes, but it still delivers incremental free cash flow.

Now to your point, what we saw in the last recession was a runoff of the financing portfolio, so this finance receivables and we expect that, that will occur to a degree here as well, and that will become a tailwind. Not exactly how I want to generate cash, but there's going to be a balance here as we write new business, as COVID goes on longer, that install cycle is longer. So it's more likely that we're going to see runoff coming in before we see the installs get to go and start to backfill them. And then another tailwind that I would highlight. If you recall, we have insurance coverage for last year's cyber attack and we disclosed that we received about $4 million thus far. And if you remember, that claim is obviously a lot larger than that, and we expect that we'll get some of those proceeds as we go through the year.

Now the tailwind side of this is that there'll be offset from lower profit performance within the business units given the challenges we're going through now because COVID really ramped up through March, but we expect a greater impact in the second quarter. And then I mentioned in our prepared remarks, we do anticipate an impact on part of our working capital, predominantly around our accounts receivable and collections. And while we haven't seen a material impact yet, we believe that, that will increase. And we're working on the other side of working capital on driving payables and inventory, working with our partners. So if I kind of step back, I give you a flavor for the headwinds and tailwinds. And if you look back to the last recession, free cash flow, while it was lumpy, did hold up to a reasonable degree. So we expect free cash flow to improve, and that will have the liquidity to weather this crisis.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

That was very helpful. I guess my next question is on the write-offs that you took in e-commerce. Can you give us some more specifics on what drove that and what specifically you consider impairing?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. If you go back and look at our Qs over the last several quarters, we've disclosed that we are below 20%, which is kind of our bright line on coverage. And what we looked at in the first quarter was the weakness in the performance and COVID exacerbated that. So as you look at COVID, I think it had an outsized effect here in e-commerce. So that became kind of a trigger point for our evaluation. Now we did this with a third-party firm and then looked at scenarios out through the year. And this change in trajectory due to the current macro environment as well as the weaker-than-expected profit performance is really what drove that action in the first quarter. Now we still have confidence in a long-term model, but the ramp of getting there, we think, has shifted a little bit and the difficulty of predicting how COVID will alter that was part of the challenge of looking at that in the first quarter. So we've come back, we did the analysis and you saw we took a $198 million impairment. If you recall, we had just over $600 million of goodwill on the balance sheet for Global Ecommerce. As a reminder, it's obviously a noncash event, and we still are confident in the long-term prospects for our Global Ecommerce business.

Operator

Your next question comes from the line of Allen Klee.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***

For the new accounting for credit losses, could you explain that? And then the amount that you took a reserve of $0.05 per share, can you kind of explain that's -- what time period that's covering? And do we -- is there any reason we should maybe think that this time it going from 1% to 2%, 2.5%, this time it might actually -- the charge-offs might be a little higher than that?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Thanks, Allen. Let me take that one. So CECL, for those who may not have as much experience with this, is the Current Expected Credit Losses, which is a new accounting standard that went into effect in 1/1. I would direct you to the charts that we produced. There is a chart in there that breaks down the CECL impact and how much went through retained earnings versus how much was in the quarter. But let me go through that now. So obviously, Pitney Bowes has a financing business, which includes captive leasing as well as postage loans through an unsecured line of credit and third-party leasing. We offer that through a PB bank. Similar to other banks and companies of financing arms, we implemented CECL accounting standard effective January 1. So when we implemented this, the standard calls for a 1/1 opening balance adjustment that goes to retained earnings. We recorded a $25 million credit charge reserve in retained earnings on the balance sheet. It's important to note, at that time, we looked at our portfolio and we built a model that we've been through with our external auditors, and that model uses a publicly published recession factor in it. That recession factor at the time was 30%. Now that resulted in retained earnings charge, no impact to the P&L of $25 million. Now when you go, that becomes your 1/1 opening balance on the reserve. So then what happened in the period is that there's a number of factors. You have to look at this every quarter as you go through. And when we did that and re-ran our model, the recession factor driven by COVID went from 30% to 100%. That change drove $11 million of impact in the quarter across our business. Now incremental to that was roughly another $5 million that I would say was more normal changes, and I'll give you an example there.

In Global Ecommerce, given some increased bankruptcies with some of our clients, we increased that rate as well, and that resulted in an additional charge. Now offsetting that is a write-off to -- of certain receivables which was about $10 million. Those write-offs are fully reserved. So there's no financial impact through the P&L for those charges taken previously. So if you look our -- the effect of CECL, we ended last year with $38 million of reserve. We booked $25 million in opening balance that yielded $62 million. And then within the quarter, driven by the higher recession factor as a primary driver, we had credit loss expense of $16 million in total, of which $11 million was specifically related to the recession factor change and roughly $10 million of write-offs for which there was no P&L impact. So our ending reserve is $68 million. Now how to think about that on a go-forward basis is we'll continue to evaluate this. Obviously, I would not expect the recession factor, given we're at 100%, to have any material impact going forward, but there could be other specific reserves that come up if certain clients get into trouble. And then as the macroeconomic environment improves, then you could eventually see that recession factor go back down and see the reserve come back down accordingly.

Operator

And at this time, there are no further questions.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***

Great. Thanks, operator. Listen, let me end where I began and that is to hope everyone on the call is well, obviously. Incredibly difficult times. I would like to acknowledge Shannon's generous comment about our people. And it's not just true with the Pitney Bowes' team, but if Shannon alluded to, it's just remarkable in this country that people that are doing incredible work each day to support this economy under difficult and sometimes really dangerous circumstances. So I appreciate the call out, Shannon.

Also on Kartik's question about new clients, I do see this as an opportunity to help clients and conceivably pick up some new clients, both in SendTech, because of our online offerings which are terrific in general but really terrific at this moment, but also in Global Ecommerce where, as I said, domestic networks are operating at capacity in many instances and some of the others in the market will not be able to fulfill existing client demand. Moments like this are always opportunities for market share to change hands. And our largest competitor in SendTech has taken 30% of their team off the field. So there's lots of moving pieces.

So let me conclude. Over the last several years, we've taken significant strategic actions to strengthen our portfolio, products and our balance sheet for the long term. We've executed on the sale of Production Mail, Software Solutions as well as many other smaller divestitures in international markets. These actions collectively have simplified our portfolio and also focused us on mailing, shipping as well as underpinning financing. We've also leveraged and taken advantage of the tax reform to repatriate cash. We've used a combination of the strength of our balance sheet, reduce debt and our financing terms in the near-term are modest until next year. But we're going to continue to invest in adjacent spaces because we think that the markets that we're pursuing still, over the long term, have attractive end user growth characteristics and good opportunity to make profit.

Like everyone else, we're going to feel the effects of COVID-19. But everything we've done for the last several years to strength our balance sheet, to strengthen our portfolio, to reposition this business put us in a much better place to weather the storm and our focus is to fulfill our role as an essential business and do the necessary things on a day-to-day basis to continue to move mail, move parcels, finance small businesses, but importantly, to come out of this crisis even stronger than before.

So with that, I'll close today's call. The conversation on CECL and some of the other economy stuff is commented, Adam and Jim will be available to take you through that. So again, I hope everyone is well, and we'll talk soon. Take care.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.