REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2020 Pitney Bowes Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2021 / 1:00PM GMT

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Adam David *Pitney Bowes Inc. - VP of IR*
Joseph Ronald Catapano *Pitney Bowes Inc. - Interim CFO & CAO*
Marc B. Lautenbach *Pitney Bowes Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Allen Robert Klee *Maxim Group, LLC - MD & Senior Equity Research Analyst*
Ananda Prosad Baruah *Loop Capital Markets LLC, Research Division - MD*
Anthony Chester Lebiedzinski *Sidoti & Company, LLC - Senior Equity Research Analyst*
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 Fourth 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; Ms. Ana Maria Chadwick, Executive Vice President and Chief Financial Officer; Mr. Joe Catapano, Vice President and Chief Accounting Officer; and Mr. Adam David, Vice President, Investor Relations and Financial Planning. 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***

Thank you, Adam, and good morning. Let me start by saying how delighted I am that Ana is joining the team as our Chief Financial Officer. Ana held several executive positions at GE Capital, most recently being President and CEO of GE Capital's Global Legacy Solutions, and prior to that, the Chief Operating Officer and CFO of that business. Ana brings with her strong financial and operational experience and will fit into the PB culture very well.

Before I turn to the state of our business, I would again like to recognize and thank our employees. No one could have predicted how the world changed in 2020. I am very proud of how our team was prepared and managed through the challenges. Their efforts and hard work shown the progress we made in our business throughout the year. If I had to choose one word to sum up our employees in 2020, it would be determined. That is exactly what our team personifies.

The fourth quarter was a remarkable ending to an extraordinary year. Revenue at constant currency grew 23%. To the best of our knowledge, this is the highest modern-day organic growth rate on record for Pitney Bowes. And our shipping-related revenues comprised 54% of our total revenue. For the quarter, Global Ecommerce 60%, with profit improving from prior year and prior quarters, resulting in positive EBITDA. Presort turned in flat revenue performance, which is a significant improvement from prior quarters embedded in the

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

market. And SendTech turned in strong performance, growing both revenue and profit over prior year.

This was powered by strong equipment sales, double-digit growth in our SaaS-based shipping offerings and a solid performance in our services business. SendTech is a business that many considered a melting ice cube. However, the investments we have made in our digital channel and products, while also expanding our shipping offerings, have given new life to this business. In all, these accomplishments would have been hard to imagine a few short years ago, but this is what a determined and focused team can do.

Looking at the year from a broader lens, when the pandemic hit, we had 2 objectives: first, we needed to focus on the health and well-being of our employees and ensuring the company remains strong financially during this unpredictable time; secondly, we wanted to come out of this terrible moment a stronger company. It is often true that moments of economic dislocation create opportunities and our team was determined to leverage the investments we have made over the last several years to capture those opportunities.

We pivoted to change our work protocols and practices and provided our employees the necessary PPE to be safe as they did their essential work. We also took the important actions to fortify our balance sheet by refinancing our debt, and we made proved decisions to ensure we had a solid liquidity position. It was apparent early on that the company's financial position was solid, and we turned to coming out of this pandemic stronger, which we are well on our way of achieving.

From an annual perspective, Global Ecommerce turned in $1.6 billion in revenue, growing at a record rate of just over 40%. This business won new customers and achieved scale much earlier than we had planned. Simultaneously, we accelerated our planned network build-out by several years. It certainly wasn't always smooth sailing, but the business is in a much better place than it was 12 months ago. While e-commerce astonishing growth understandably gets a lot of attention, the transformation of our SendTech business tells an equally remarkable story.

Importantly, the business performed well relative to the mail market, but even more enduring, the business has moved to a natural adjacency in shipping. This is a new, large growth area, which, along with the ongoing transformation of our financial services business and a meaningful contribution from our global Services group, leverages our core strengths. Epitomizing the transformation of SendTech is the growth of shipping revenue, which is now a meaningful offset to our declining Mail business. Also notable, the U.S. shipments of our low end and middle market devices grew 13% for the year. These multipurpose devices provide new value to clients as compared to our previous generation, single purpose mailing machines.

I'm also particularly pleased with our cash performance in the fourth quarter and the year. The increase in our cash is a result of disciplined execution and a great team effort. It's a fairly remarkable accomplishment to meaningfully increase operating cash flow in the middle of a pandemic and one of the most significant economic dislocation since the depression.

All that being said, transformations are always messy and never a straight line, and transformations in the middle of pandemic are particularly complicated. The unprecedented increase in demand in the e-commerce market created cost inflation, particularly in labor and transportation costs in the fourth quarter, which had a deleterious impact on our profit in e-commerce.

This quarter tested capacity throughout the entire industry. Admittedly it was a challenge in order to optimize our service, we more than doubled our labor and setup of 3 new facilities to help meet the demand. While these facilities, along with the newer flagship sites we opened late last year, works through typical growing pain, they've also become a critical part of our overall network, handling over 1/4 of our total domestic parcels in 2020.

In addition, our use and reliance of third-party transportation in this peak, both in cost and service, was challenged, which was in line with broader industry trends. To mitigate this, we proactively upgraded packages at a cost to try to maintain service. Going forward, we see opportunity to balance our use of third-party transportation and our own PB fleet assets, which performed above expectations this peak.

We will continue to invest to become more efficient across each of these areas. As I've said in the past, it's now within our 4 walls to manage the cost structure and generate efficiencies. I am often asked about the anatomy of transformations, and I think it's worth

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

repeating. Transformations have a certain odd to them: quick wins; sustained investments; revenue growth; and then profitable revenue growth.

The most highly correlated factors for successful transformations are revenue growth and employee engagement. We have achieved revenue growth the last several years, and our employee engagement in the middle of pandemic reached new highs. While there continues to be tremendous uncertainty in our economy and how the pandemic will play out, we are poised to enter the last stage of successful transformations, profitable revenue growth.

I am proud of what the team has accomplished, but we all recognize there is more work to do. I'm excited about this next chapter of our transformation. We're on the precipice of accomplishing what very few companies have ever done. With that, let me turn it over to Joe to take you through our results.

Joseph Ronald Catapano ***Pitney Bowes Inc. - Interim CFO & CAO***

Thank you, Marc, and good morning. Let me start by providing an overview of our full year results, followed by the details of our fourth quarter. Unless otherwise noted, my statements made during our call will be on a constant currency basis when talking about revenue comparisons, and on an adjusted basis when talking about earnings related items, including EPS and cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the schedules posted with our earnings press release and on our Investor Relations website.

For the full year, revenue was $3.6 billion, which was growth of 11% over prior year and is our fourth consecutive year of constant currency revenue growth. Global Ecommerce grew 41%; Presort Services declined less than 2%; and SendTech declined 7%. Adjusted EPS was $0.30 and GAAP EPS was a loss of $1.06. As a reminder, GAAP EPS includes a noncash goodwill impairment charge that we recorded in the first quarter. GAAP cash from operations was $298 million, and free cash flow was $279 million.

Free cash flow increased $91 million over prior year. Through the year, there were a few noteworthy items that principally benefited free cash flow. First, our focus on collections resulted in a strong improvement in our DSO. We also saw a higher level of Presort and PB bank customer deposits, in part due to initiatives to support our clients. Second, finance receivables declined at a greater rate largely in the second quarter as a result of the lower placements of our SendTech equipment due to the pandemic.

You can see the trends starting to improve as our SendTech business built momentum through the second half of 2020 as businesses began to reopen. And finally, CapEx, early on when the pandemic surfaced, we made the prudent decision to reprioritize investments and reduce spending, given the level of uncertainty in the market at the time. There were other puts and takes through the year as we typically experienced, but these areas are the key drivers to understanding the strong free cash flow we generated for the year.

Looking at our balance sheet and capital allocation. We ended the year with $940 million in cash and short-term investments. For the year, we used free cash flow to return $34 million to our shareholders in the form of dividends. Our capital expenditures totaled $105 million and reflect investments made throughout the year in new and existing facilities, our technology and our products.

As part of our ongoing transformation, we also made $20 million in restructuring payments. Within our Pitney Bowes Bank, customer deposits grew to $617 million and Wheeler Financial funded $16 million in new deals for the year. From a debt perspective, we ended the year with under $2.6 billion in total debt, which is a reduction of $175 million from prior year.

In terms of our net debt, when you take our cash and short-term investments and finance receivables into consideration, our implied net debt position on an operating company basis was about $550 million at year-end.

Turning to the details of the fourth quarter. We delivered $1 billion in revenue, which represents growth of 23%. Global Ecommerce grew 60%, and both Presort and SendTech were flat to prior year. For the quarter, adjusted EPS was $0.13, and GAAP EPS was $0.11. EPS for the quarter reflects a $0.03 tax benefit, primarily related to deferred tax balances in certain international tax jurisdictions. GAAP cash from operations was $111 million in the quarter, and free cash flow was $97 million. Free cash flow grew $16 million over prior year, predominantly driven by the timing of working capital.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

During the quarter, we used free cash flow to reduce debt $31 million, invest $24 million in capital expenditures and pay $9 million in dividends. Turning to the P&L, starting with revenue performance as compared to prior year. Business services grew 43%, and equipment sales grew 15%. We had declines in support services of 4% and rentals of 8%, while financing and suppliers both declined approximately 10%. Gross profit was $311 million, and gross margin was 30%. This is a decline of about 9 points from prior year, which largely reflects the shifting mix of our portfolio and higher cost of service, driven by the influx of parcel demand in Global Ecommerce.

SG&A was $242 million or just under 24% of revenue, which is a 6-point improvement from prior year. Within SG&A, unallocated corporate expenses were $54 million, which were $2.5 million higher than prior year. It is important to note that full year unallocated corporate expenses were $200 million, which were $11 million lower than prior year, primarily due to lower employee-related expenses.

R&D expense was $9.5 million or about 1% of revenue, which was about 0.5-point improvement from prior year. EBIT was $62 million, and EBIT margin was 6%. Compared to prior year, EBIT declined $3 million and EBIT margin declined about 2%, largely driven by the lower gross profit. Interest expense, including financing interest expense, was $38 million, which was relatively flat to prior year. The provision for taxes on adjusted earnings was less than $1 million, and our tax rate for the quarter was 1%, bringing our annual tax rate to 13%.

Average diluted weighted shares outstanding at the end of the quarter were about 177 million. Let me now discuss the performance of each of our business segments this quarter. Within Global Ecommerce, revenue was $518 million, which was growth of 60% over prior year and the first time we achieved over $500 million in quarterly revenue. Compared to prior year, volumes grew by 50% or more across each of our lines of business.

Domestic Parcel's volumes grew 76% to just under 65 million parcels. Digital volumes grew 50% and Cross Border volumes grew 76%. Looking at EBIT, we recorded a loss of $15 million. This was an improvement of $3 million from prior year and $5 million from prior quarter. EBIT margin also improved 3 points from prior year and 2 points from prior quarter. EBITDA was $3 million, which was an improvement from prior year and prior quarters. Revenue growth over prior year benefited from the significant demand. This was offset by higher costs, driven partly by the market dynamics, which we are seeing a significant higher transportation spot market and higher labor costs.

The increase in peak demand also put pressure on our productivity. We will continue to invest across our network to drive efficiencies, reduce costs and improve service for our clients, which will come in part from automation across our network. We are addressing our labor structure, shifting more from temporary labor to permanent, which will yield a more productive workforce. We are also looking at our transportation network and opportunities where it makes sense for us to become less reliant on the spot market, along with becoming more efficient at capturing deeper postal discounts.

Additionally, similar to the market, we will capture our surcharge in 2021, along with our annual general rate increase. Within Presort Services, revenue was $135 million, which is flat to prior year. Overall, average daily volumes declined 2%. First Class Mail volumes declined 3%, while Marketing Mail volumes grew 2%. Marketing Mail Flats and Bound Printed Matter volumes grew 26%.

As we have discussed in the past, this is still a relatively small part of the portfolio, but representing new revenue and profit stream for us. EBIT was $13 million and EBIT margin was 10%. EBITDA was $21 million and EBITDA margin was 16%. EBIT and EBITDA margins were relatively in line with prior quarters and declined from prior year, largely due to higher medical claims and increased labor costs as well as COVID-related direct costs for the health and safety of our facility workers.

Turning to our SendTech segment. Revenue was $376 million, which was flat to prior year, excluding the impact of currency and represents growth of 1% on a reported basis. Marc talked about the investments we have made in our SendTech business around our digital capabilities, including our channel and products. We are bringing new value to our clients through our multipurpose devices, and we are leveraging our digital channel to attract new clients to our offerings.

In the fourth quarter, SendTech's shipping-related revenues grew nearly 30% to $35 million. And our SaaS-based central online offering

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

grew its paid subscriptions by over 70%. Shipping is a high-margin stream that contributes about 10% to SendTech's overall revenue today, with great opportunity for future growth still and in front of us. The impact of shipping is also resonating in our financing portfolio as those clients grew their shipping volumes by 65% over prior year.

Equipment sales grew 15% over prior year, driven by strong placements of our SendPro C and Mail Station multipurpose products. Our value proposition continues to resonate with our clients. Our Central Mail Station is a replacement option for our lower volume mailers and ideal for remote setups or branch offices of larger organizations. Since launching in April, we have shipped approximately 20,000 mail station units. The growth in equipment sales is a significant improvement from prior quarters, particularly against the decline of 32% we saw in the second quarter at the height of the COVID lockdowns.

Supplies declined 10%, which is an improvement from prior quarters on increased usage and demand. In the U.S., 70% of our supply's transactions were conducted online in the fourth quarter, which is up 9 points from the same period last year. Support services declined 4%, which is also an improvement from recent quarters. When combined, rentals and financing revenues declined 9% in the quarter. We turned in strong EBIT performance of $118 million, which represents growth of $5 million over prior year. EBIT margin was 31%, which improved 1-point over prior year and is within the range projected in our long-term model.

EBITDA was $126 million and EBITDA margin was 34%, both improving over prior year. The quality of our financing portfolio remains healthy and delinquency rates are trending down from the initial small uptick that we saw earlier in the year as a result of the pandemic. We continually monitor our delinquency rates and take a very disciplined approach to managing our credit risk.

Let me close with an update on 2021. Given the ongoing uncertainty in the market around the pandemic and uncertain macroeconomic conditions, we will speak more broadly to our 2021 outlook. We expect annual revenue to grow over prior year in the low to mid single-digit range, making 2021 the fifth consecutive year of constant currency growth. We also expect adjusted EPS to grow over prior year.

Within our segments, we expect Global Ecommerce revenue to grow in the low double-digit range, and we also expect this business to demonstrate significant profit improvement. We expect the momentum we saw in the second half of 2020 for SendTech, particularly around our shipping capabilities and new multipurpose devices, to continue through 2021 and help partially offset the decline in recurring-related revenues.

We also expect the improvement in volume trends we saw in Presort in the second half of 2020 to continue through 2021. There are also a few headwinds to be aware of on a year-to-year basis that will partly offset the overall business unit improvements. In 2020, we recorded Ryuk insurance proceeds. In 2021, we expect higher employee-related costs as it relates to variable compensation. Additionally, we expect our annual tax rate on adjusted earnings to be in the 23% to 27% range, which is higher than where we ended 2020.

We expect lower free cash flow in 2021, primarily due to the specific items I discussed earlier in my comments, that benefited 2020 and are not expected to continue at the same level in 2021. Looking at the timing through the year. Our portfolio continues to shift to markets that are growing, particularly around shipping. As a result, the fourth quarter will continue to be our largest quarter for the year. Specifically in the first quarter, we expect revenue to grow over prior year in the high single-digit to low double-digit range and EPS to be relatively in line with prior year.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ananda Baruah from Loop Capital.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Congrats on an overall solid execution and performance. Marc, a couple, if I could. Just with regards to the remark a moment ago about significant profit improvement in e-commerce in 2021, can you just put a little context around that for us? And I suppose that would seem to suggest you could have -- you could find a quarter or 2, perhaps with profitability throughout the year. I'm asking, I guess, I'm using operating profit, not EBITDA profit. And then I have a follow-up.

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

Sure. Thank you for the question. So as you look at the dynamics of that business, I would point to kind of 2 clumps of dynamics. The first is the efficiencies that we control inside of our business. And as Joe pointed out and I would say the middle of last year, we added 3 new facilities. And as we got close to peak, we added 2,500 new employees. I put that in context, that's half of the workforce.

So I expect those dynamics, our own efficiency and productivity to improve on a year-to-year basis. Also, as Joe pointed out, we were more dependent in the fourth quarter on the spot market for transportation than I would have liked. And obviously, when that happens, you don't control your own destiny to the extent that you would want to. And at the same time, when you're hiring less employees, you're subject to the rate at the time.

So I think from the perspective of the dynamics that we control, there's lots of reason to believe that things are going to continue to improve. And why I know you asked your question in the context of operating profit, I don't -- shouldn't be lost that we were positive from an EBITDA perspective in the fourth quarter for the first time in a long time. The other side of dynamics that are important, which are not as in -- which are not in our control, are around labor inflation and transportation inflation.

My expectation is those dynamics are going to continue for a bit, but I expect them to moderate as we get throughout the year. Or conversely, what will happen is the industry will price for those dynamics. So yes, we do expect that business to become significantly better from an EBIT and an EBITDA perspective in 2021.

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

That's really helpful. And just a quick follow-up to that is, you guys mentioned -- well, the announcement that you're going to carry this sort of recently, you were going to carry as part to the surcharge forward. And then the comments just in a few moments ago about anticipating a surcharge benefit, maybe that's not the right context, but sort of some surcharge above and beyond in calendar '21, so the typical rate increases. Can you just give us a little context around -- I guess, around near term and if it's distinct from sort of the comment you made about overall '21 to what degree, if any, do you think you guys can benefit from those surcharges?

And I guess, I am asking a little bit about sort of is there a distinction between near term maybe second half of the year? And that's it for me.

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

You bet. So thanks for the question. So if you think about the pricing dynamics, there's what I would characterize as the fairly standard vanilla pricing increase, which the industry is used to and has been the habit over the last several years. That is in place, and we expect that to hold. The peak pricing is on top of that. And to a degree, it's tailored to individual customer situations. So if you look at the fourth quarter, what we saw was our pricing increase has actually helped. So the prices that we put in place around the peak, we realized the large preponderance of the value from those price increases, what happened is the transportation, labor costs consumed most of the price increases.

So I expect that the price increases will continue to hold, and the variable is less around pricing and more around what happens to cost. If you kind of step back and say what's going on from a broader perspective, there's been such an incredible influx of demand in the industry. You've had different participants in the industry take different approaches to how they've either tried or haven't tried to accommodate that. So we're one of the players that's trying to step up and take more demand, but the net effect of all that demand is it's put a fair amount of pressure on the prices of some of the individual costs within those businesses.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

So I would say right now, we're at a point of disequilibrium from a price and a cost perspective, that's going to work itself out. And I think as you bifurcated your question between the first half and the second half of the year, I'm not as confident it's going to work itself out in the first half, but I do think it will work itself out as we get to the second half of the year.

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

And that's really helpful. So would that mean that if it doesn't completely work itself down in the first half of the year, there's some potential for, say, like a net margin -- net cost, I can't be saying net margin. Net op profit benefit for you guys to some degree in the first half. And then it normalizes in the second half and then it would probably be a neutral situation.

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

Yes, I'm not going to go there. I mean there's too many unknowns to -- off of that level of precision answer. I'd be tricking if I had that degree of confidence, and the time frame that these things are going to work themselves out beyond the fact that I'm confident they will work themselves out.

Operator

Your next question comes from the line of Kartik Mehta from Northcoast Research.

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

I just wanted to understand a little bit about the Global Ecommerce and talking about transportation and maybe controlling your own destiny there. Does that mean that you'll have to buy trucks? Or does that mean that you just need to have contracts in place so that you can maybe control that cost more?

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

I suppose if I just answered yes, you would find that an unsatisfying answer.

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

You're probably right.

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

No, I'm just kidding. Yes, the answer is, we are looking at the balance of how much we are depending on the spot market. So just to kind of calibrate it for you. I mean, we're probably 25% dependent on the spot market through the first several quarters of last year. And then in the fourth quarter, it went up just short of 50%. So that's got 2 implications.

First of all, you're economically vulnerable to whatever is going out the spot market at that point in time. And the second is that you can't control your own destiny on service levels to the extent that you like. So my expectation is that, for sure, we will look at trying to have contracts that have got more certainty in terms of both cost and service levels. But on top of that, I'd be surprised if we didn't have more trucks as we entered into next year's peak.

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

And what could that increase cost? I guess, could 2021 be, you have another really strong quarter from a revenue standpoint in Global Ecommerce, but the cost -- these costs may be related to the growth of the business, and therefore becomes a little difficult to get the margin that you're anticipating?

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

Got a good question. So we lease the trucks. So from that perspective, both the cost and the revenue should match. So I would expect, in general, that would not be a disruption to our profitability, but it might -- the other thing that Joe said, which we shouldn't -- we've sight of is our fleet performed really well in the fourth quarter, both in terms of economics as well as service levels. So the impact of being dependent on third parties is, for sure, you're vulnerable to whatever is going on within the spot market, but also at least our experience has been that our fleet performed better in terms of service levels.

When you don't perform well in terms of service levels, what happened was we ingested into the postal network. And what I would say

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

was a way that try to maximize client service, but certainly wasn't very economical. So I think the payback on trucks is pretty solid across both benefits from savings in the spot market, but also in terms of your postal cost, which is kind of the downstream cost.

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

Great. And then just one last question, Marc. I think when you gave first quarter guidance, you said revenue, high single digits, low double digits, but EPS in line. And I'm wondering why you might not get the benefit of the revenue growth to fall to the bottom line?

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

Yes. Well, I think if you look at the dynamics, and I'll let Adam elaborate of the fourth quarter in particular, we had strong revenue growth. We didn't get quite the flow-through to the bottom line that we had anticipated, and it's because of the inflation rates of transportation and labor. I think those same dynamics are probably going to continue through the first quarter. So that's -- those same sort of dynamics that you saw in the fourth quarter, I think, will persist at least through the first 90 days. That being said, we've seen some moderation at least of the transportation costs through the first 30 days. Adam, I'll let you elaborate and provide more context.

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

Yes, Kartik. The other 2 items was our tax rate in the first quarter last year was relatively low. So we expect a bit of a higher tax rate. And we did receive some rights proceeds in the first quarter of last year. So I'd add those 2 points.

Operator

Our next question comes from the line of Shannon Cross from Cross Research.

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

I wanted to dig a little bit into puts and takes for revenue for 2021. It seems a little more, I guess, cautious than I would have expected, given some of the trends that you're seeing. So maybe if you can talk a bit about what you're seeing on the mail meter side as well as e-commerce. I know you've given first quarter, but just -- I mean, do we -- do you think that the growth that you saw in the third and fourth quarter is -- was such in '20 that there were some one-timers that won't repeat? Just trying to understand since the trajectory seems fairly strong. Then I have a follow-up.

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

Sure. Great question. So I guess, I would start with a macroeconomic statement, which you all follow as much as we do so. When you have drone power, the Chairman of the Federal Reserve states the most uncertain economic times of his lifetime. That's a meaningful statement, at least to me. So you're right, Shannon, we are, I would say, we're trying to be balanced, but I think prudence dictates that you're cautious about how the year unfolds.

If you break the dynamics between, broadly speaking, mail and shipping, I expect our Mail businesses to perform better this year on a year-to-year basis. So if you look at the exit rate of the Mail business, SendTech and Presort, those were flattish, which was an improvement from throughout the year. If you look at shipping, I expect that the volumes are going to continue to be strong. But if you look at the fourth quarter, in particular, is kind of a data point, do I expect that we can lap 60% growth with another 60% growth in the fourth quarter of this year? I suspect not.

So I mean, as you get into the back half of the year, the comparison gets pretty difficult from a shipping perspective. So that -- those are the dynamics.

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

Okay. And then I'm curious, if you -- basically, you said you've accelerated your network build-out relative to the plans that you had in the past. So if you go back to 2019, maybe in what you talked about, where are we now in terms of the build out? And then also, I'm curious how much you're investing in automation and new facilities given the demand you're seeing in the network? Like where is your capacity utilization by the time you get to the end of '21 based on your estimates? Just to get an idea of what's going to be required in the future.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. I would say from a footprint -- physical footprint perspective, we'll continue to fine tune our physical footprint. There's a couple of facilities which we've outgrown. And there's a couple of places where we might contemplate new facilities. I would say the overall basic footprint of the network is appropriate to the demand we're seeing, and the changes will be more in terms of the size of the facilities. And I think I'd expect some changes there. And then, obviously, it will depend on the demand environment, but not substantial.

Automation is in front of us. So we're -- we have pretty ambitious plan to automate our warehouses. That automation will roll out over the next couple of years. Candidly, we'd roll it out as fast as we could, but the supply is a little bit constrained. So it will be dependent on what the manufacturer's capability is. So as an example, just to kind of dimension the last for you. In the shipping locations, there's technology available that does sortation and puts parcels and facts, which is how the -- which is how the postal service ingests in their network.

There's technology available to do that on an automated basis that, in essence, reduces the amount of manpower by half. So as quick as we can get that technology, we'll get it, but it also has a very good payback.

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

Okay. And actually, if I could just sneak one more in. If you think of e-commerce and the growth you expect this year, how much of it do you think will come from existing customers you had signed as of the end of 2020? And so you're just seeing those customers expand versus the need to go out and sign new logos to grow the business? And that's it.

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

We don't -- I mean, I suspect we will continue to sign new clients, we'd like to. The plans are really not predicated, and the plan is predicated on keeping the customers we have with some nominal amount of growth underneath it. We had a very successful year last year in terms of signing new customers. Our focus now is making those customers successful.

Operator

Your next question comes from the line of Allen Klee from the Maxim Group.

Allen Robert Klee ***Maxim Group, LLC - MD & Senior Equity Research Analyst***

I thought I heard you say with Global Ecommerce that you had a price increase plus a surcharge. Could you tell us how much of the revenue in the quarter came from just the peak surcharge?

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

Let me defer to Joe or Adam on that number.

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

I can take that one, Allen. Yes. I mean, Allen, we don't want to give a specific number out as far as the peak surcharge, obviously, for competitive reasons, but it certainly did help our revenue. However, it's important to keep in mind that the largest item by far, driving the revenue year-to-year increase was our volumes. As we talked about, volumes increased by over 50% or more across all our lines of businesses. So it was really the volume increase that drove most of the revenue from a year-to-year perspective.

Allen Robert Klee ***Maxim Group, LLC - MD & Senior Equity Research Analyst***

And you highlighted your ability in '20 to decline SG&A as a percent of revenue. Do you anticipate in '21 that SG&A as a percent of revenue will decline again? And do you think that CapEx in '21 will be higher or lower than '20?

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

Adam, why don't you take that?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. So I'll answer the second part first. So CapEx, Allen, as you recall, in the second quarter when the pandemic hit, we talked about reprioritizing our spend, and we did that. So our CapEx came in much lower than in prior years. As we look into 2021, we expect CapEx to return back to normal levels. A lot of those investments in CapEx will go to the points Marc talked around automation and building out the efficiencies for e-commerce.

As far as SG&A as a percent of revenue, yes, I mean, as we look forward across our long-term plan, we expect that SG&A as a percent of revenue to continue to improve, there's opportunities and continues to be opportunities in shared services to reduce costs. We continue to benchmark all the shared services, there's opportunity there. Another example is within our SendTech business, on how we go to market, right, we've done a lot of work shifting our go-to-market from the direct sales to inside sales, which is a more efficient channel.

We've certainly sold more over the web now, which is the most efficient channel. And I think as we look forward here, we'll continue to ship more and more of our sales via the web. So certainly continued opportunity from an SG&A front.

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

I would just add on that. I mean our model -- if you look at our long-term model, it suggests that while revenue continues to increase at moderate levels expense, either it stays flatter comes down. So it's -- and that's one of the dynamics that creates leverage of the business model.

Allen Robert Klee ***Maxim Group, LLC - MD & Senior Equity Research Analyst***

Great. And my last 2 questions related to SendTech. One, the increase in new business equipment, can you just dig into that a little bit of what's behind that and the potential for that to continue? And then, second, I know for Wheeler Financial, you don't want to give how much -- it's not prudent to say we're planning to put this much money to work. But in general, if you could just remind us how much excess deposits are available? And have you changed your view of like that we want to pull back on Wheeler that maybe there's an opportunity to expand that in '21?

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

Sure. Let me take both of those, if I might. So within SendTech, there were a couple of different factors that drove equipment sales. First of all, in the fourth quarter, there was a large government deal, which we realized some of the revenue from in the fourth quarter. We'll realize more of the revenue from that deal in 2021. But that being said, as Joe pointed out, the low and middle-end devices grew fairly substantially last year, and that's because we had new value principally shipping that was embodied in those devices. So the product was relatively new. So you always get a little bit of an initial surcharge on revenue as you introduce new products.

But I'm fairly confident that we've tapped into something that's a pretty important revenue source for us going forward. So whether or not every quarter looks like the fourth quarter, we'll see. But as Joe pointed out, and I would reiterate, the decline of the core Mail market is now substantially being offset by shipping revenue in SendTech, and I expect that dynamic to continue.

As our rates to Wheeler, we still think that's an important opportunity for the company. We have -- I'll defer to Joe or Adam, but $300 million or $400 million of deposits that we would like to put to work, we think those deposits are economically advantaged in terms of costs. And we think there's great opportunities to put that money to work in a way that drives incremental earnings.

If you look at how our thinking has evolved, however, when this business started, we had envisioned it as principally a lease-based business. I would say as our thinking has evolved, we've moved more to working capital loans for shipping, somewhat analogous to what we've done for the Mail market over the last several decades. The advantage of that is those loans, if you will, that working capital has a higher velocity to it, it is relatively reliable from a credit perspective. And it's accretive to our shipping businesses.

The other advantage of it is unlike when you're making loans where you take residual value risk, you don't take any residual value risk when you're providing working capital loans. So our rate and pace of putting those deposits to work will depend on economic conditions. But I'm as convinced now as I was several years ago, it's a great economic opportunity. Just again to repeat, there's a customer base that

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

we understand well from a credit perspective. We have economic advantage in terms of the funding source. And we've already gone through the expense of acquiring those clients.

So as long as you stay in your installed base, as long as you stay within kind of capital that you can control, we bring structural advantages to the marketplace, which I continue to think are very compelling.

Operator

Your next question comes from the line of Anthony Lebiedzinski from Sidoti.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

So first, just wanted to follow-up on the previous questions in regard to the equipment sales. So if we to back out the equipment sales to the large government deal that you had, that business have grown in the fourth quarter?

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

Equipment sales would have grown. The overall total revenue is probably close enough that it was still kind of around flattish. Adam, is that the right recollection?

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

Yes, that's right, Marc.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

Got it. Okay. And then as far as your first quarter guidance, you mentioned that you expect kind of EPS to be flat from a year ago. Can you give us a sense as to what's embedded in those expectations for profitability for each of the 3 main segments?

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

Adam, I'll let you handle that one.

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

Yes. I mean, Anthony, we're not going to obviously give segment-by-segment guidance here for the quarter. As I mentioned, I think it was Shannon, who asked the question, we do expect improvement here as we move forward throughout the quarter. First quarter, as we mentioned, we did have a lower tax rate last year and some right proceeds, but we certainly expect continued improvement from an EPS standpoint as we move throughout the year.

With the fourth quarter naturally being our largest quarter, right, with the holiday season and e-commerce being a bigger, bigger piece of the business.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

Got it. Okay. And you mentioned several cost headwinds as far as transportation and labor, certainly seeing an increase there. Any sort of cost tailwinds that could materialize over the course of the year? I know you talked a little bit about automation, but would anything else there that you could call out?

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

Well, I would say, just general efficiencies. So again, if you think about the operating dynamics within GEC, in particular, I mean, 2,500 people that were brand new to their job, as we entered into peak, there's just a certain maturation of skill that will yield efficiency and productivity all by itself. So put automation aside, we'll get to that as quick as we can. But as the network settles out and matures just a little bit, we would expect more efficiencies.

Operator

And at this time, there are no further questions. I'd now like to turn the call back to Mr. Lautenbach for any additional remarks.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. Thank you, and thanks for the question. The questions were terrific and instructive. So hopefully, our answer is more equally instructive. Before I go any further, I'd like to thank Joe Catapano. Joe has ably sat in for Stan Sutula over the last a couple of months and done a terrific job of getting us through year-end close as well as starting off the year, and he's been a terrific partner. So Joe, thank you for your partnership. And again, we're just delighted to have Ana on Board.

As it relates to guidance, I understand the desire for us to provide specific guidance. Candidly, I'd like to get there as quickly as I can. So as soon as we can give you a set of numbers that we have a degree of confidence then we'll do that. We understand the importance from your perspective as well as the investor perspective. I just didn't think right now that we had the degree of confidence in how the year unfolded, particularly in the back half of the year to do that.

So we'll get to that as quickly as we can. I would just pick up where I concluded in my formal remarks, and that is we're of the precipice of doing something that very few companies have done. You all follow a cadre of terrific companies, many of whom are going through some of the same challenges that Pitney Bowes has gone through over the last decade and the digital disruption of business and how business models have become so disrupted.

We're through the preponderance of the things that we needed to do in order to recreate this company. And as I've said that last chapter of profitable revenue growth is the mark of a fully transformed company that moves on. And as our guidance suggested, we believe we're poised to reach that. So we'll continue to talk. And we would like to do an Investor Day sometime in the first half of the year, if we can to provide as much clarity to you as we possibly can.

So of course, we would have to do that in a way that was either virtual or safe. But nonetheless, we want to be as transparent as we can. So with that, we'll conclude this morning's remarks, and we look forward to talking to you 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.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.