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PBI - Q1 2017 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 revenues of $837m and GAAP EPS of $0.35. Expects 2017 constant-currency revenues to be in the range of 2% decline to 1% growth and adjusted EPS to be $1.70-1.85.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes First Quarter 2017 Results Conference Call. (Operator Instructions) Today's call is also being recorded. If you have any objections, please disconnect your lines at this time.

I would now like to introduce the participants on today's conference call. Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President and Chief Operating Officer; Mr. Stan Sutula, Executive Vice President and Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations. Mr. David will now begin the conference 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 2016 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 statement 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. - CEO, President and Director*

Thank you, Adam, and good morning, everyone. Thank you for joining our first quarter earnings call. Before we begin, I would like to formally welcome Stan Sutula to his first quarterly earnings call as Chief Financial Officer. For those of you who have not yet met Stan, I'm confident you will be impressed by his knowledge, insight and experience. He's already making a difference, and we are delighted to have Stan with us at Pitney Bowes.

With that, let me provide you an update on our first quarter in the context of our overall strategic transformation. We turned in a solid first quarter performance, and we continue to make real progress transforming our company. We had particularly strong performance in our enterprise and e-commerce business, and importantly, our software business returned to growth. Overall, we were able to achieve a modicum of growth at the constant currency level. It is our intent to build off of this growth.

If I were to characterize where we are in our overall transformation, we have moved from the quick wins we achieved a couple of years ago. And while we are continuing to invest in our business, we're moving to the benefits realization phase of our journey.

In our Mail business, the new channels we have been developing over the last 4 years, specifically the tele and digital channels, and the new products we introduced last year are starting to pay dividends. We can see the results most clearly in our equipment sales in North America SMB, where we had solid growth off what was a very good performance in equipment sales in the first quarter of 2016.

In Production Mail, we have now strung together several quarters consecutively of equipment sales growth. We will continue to accelerate our new product introductions in our SMB business. And as we do that, we will continue to accelerate the use of our new channels. In terms of operational excellence, we've taken out roughly $300 million of SG&A since the end of 2012 while still investing in our business.

We also continued to enhance and optimize our new Enterprise Business platform. As we've discussed in the past, the Enterprise Business platform not only drives operational efficiency, but also is the foundation for our new products and an entirely new and improved client experience. We are rolling out this new platform in the rest of the world in a measured way. We continue to be on track to exceed our original expectations for this new business platform.

As I mentioned at the outset, we achieved growth in our software business, and our Global Ecommerce business continued to grow at close to 20%. To remind everyone, the Global Ecommerce business was less than $20 million in 2012, and we are now on a clip to be a $400 million-plus business 5 short years later. Let me double click on each of these businesses.

First of all, I am pleased we achieved some growth in our software business, driven by license revenue, which grew 8% in the quarter. I'm even more pleased with our progress building our indirect channel. This channel drove nearly 50% of the license revenue in the quarter and all of the growth. This is a clear sign of progress and a reaffirmation of our strategy. That said, we have much more work to do on our software business, and I'm careful not to read too much into one quarter of growth. The future work revolves around continuing to broaden our channel reach to more markets, clients, more partners and ultimately more transactions.

Licensed software businesses are always susceptible to swings based on large transactions. And given the scale of our business, we are particularly susceptible to those swings, but we need to broaden the base of our business to continue to immunize Pitney Bowes against those swings. We have particular success in our Customer Information business, focusing on helping our clients detect financial crimes. Again, this was a business that didn't really exist 5 years ago.

In the past, I said software is a second half story. I still think that is true today. Progress but more work to do.

The Global Ecommerce business continued to drive solid growth, growing almost 20% for the quarter, impressive growth for a business of this scale. More impressive were the number of customer wins, a number of which were competitive takeaways, and the pipeline for the balance of the year. Our sales efforts in the quarter exceeded our expectations. While this put short-term pressure on margins as we incur the upfront integration costs, it's a good trade as it'll provide the basis for long-term growth.

Let me address the question on margins of the e-commerce business. Our priority for the near term continues to be growth. And given the choice between driving growth and margin realization, we will choose growth. We believe we have first-mover's advantage in these markets. And like any business platform business, scale and early scale creates long-term economic value.

Let me wrap up and turn the call over to Stan. In some ways, our performance in the quarter was what we envisioned in 2016. We're off to a good start for the year and have positioned ourselves for a solid year. That said, the most important point to me is the progress we are continuing to make on our strategic agenda.

With that, I will turn the call over to Stan.

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Thank you, Marc, and good morning. It's a pleasure to be part of the team. In the last 3 months, I have had the opportunity to meet with investors, clients, partners and employees. It has been both educational and encouraging to talk with and hear from these various stakeholders. While there is still much to do in our transformation, the foundational elements that we have put in place over the last few years are beginning to yield returns.

Our first quarter results are a solid start to the year and leaves us well positioned to deliver on our 2017 commitment. Our results demonstrate that we are on the right course for our long-term strategy. This quarter, we delivered $837 million in revenue, which was growth of 0.2% over prior year on a constant currency basis and the best overall year-to-year revenue performance in more than 2 years. North America Mailing's revenue declined at a lesser rate than prior quarters' performances, largely driven by growth in equipment sales. Our Enterprise Business Solutions grew revenue above the market range. And Digital Commerce Solutions delivered a solid quarter of revenue growth, driven by double-digit growth in Global Ecommerce as well as growth in Software Solutions.

We delivered adjusted earnings per share of $0.36 and free cash flow of $111 million, both measures an improvement over prior year levels.

Before I go into more detail on the first quarter results, I want to highlight a segment change regarding office shipping to align with how we are now managing the business. Effective January 1, 2017, we revised our segment reporting to reflect a change in how we manage or report office shipping solutions, which were previously reported within the Global Ecommerce segment. The needs of retail and e-commerce clients are different from the needs of office shipping clients. Accordingly, the results for office shipping solutions are now reported within SMB Solutions, and the retail and e-commerce shipping solutions remain within Global Ecommerce. This change only impacts our segment reporting and will not change our income statement or balance sheet.

Please also note, all of our earnings-related documents, including the press release, slides and financial schedules, which includes reconciliations of GAAP to non-GAAP measures, are posted on our Investor Relations website. In addition, we have posted a file with 8 quarters of historical segment results that have been recast to conform to the segment reporting change related to office shipping solutions reclassification.

Turning to our first quarter overall results. As I mentioned earlier, we delivered $837 million in revenue. Compared to the prior year, this was growth of 0.2% on a constant currency basis and a decline of 0.9% on an as-reported basis. Adjusted earnings per share were $0.36 for the quarter, which was an improvement of $0.02 per share over prior year. GAAP earnings per share were $0.35 for the quarter, which was an improvement of $0.05 over prior year. GAAP EPS included restructuring and asset impairment charges of $0.01 per share this quarter. Free cash flow was $111 million, which was an improvement of $46 million over prior year. On a GAAP basis, the company generated $154 million in cash from operations.

Looking at revenue by line item as compared to prior year on a constant currency basis. Business services grew 10% driven by continued double-digit growth in Global Ecommerce as well as single-digit growth in Presort Services. Equipment sales grew 3% overall, driven by growth in our Production Mail and North America Mailing businesses, partially offset by a decline in International Mailing. Software revenue returned to growth, growing 2% over prior year driven by license sales. Support services declined 6%, impacted by a decline in Production Mail and SMB. Supplies declined 6%, also largely driven by the North America Mailing business, which had a strong performance in the prior year. Rentals declined 4% and financing revenues declined 11%, both primarily driven by the declining North America Mailing portfolio.

Looking at cost and expense. Gross margin was $475 million or 56.8%. This is 170 basis points lower than prior year and largely reflective of the lower reported revenue and changing business mix. SG&A was $306 million or 36.6% of revenue. Compared to the prior year, SG&A declined $21 million, largely driven by continued focus on operational excellence initiatives throughout the company and some timing-related matters largely around advertising. R&D expense was $32 million or 3.8% of revenue. Compared to prior year, R&D expense increased by $5 million, which reflects continued investments in strategic areas like Global Ecommerce, the Commerce Cloud and our new SMB products.

EBIT, on an adjusted basis, was $137 million and adjusted EBIT margin was 16.4%. Compared to prior year, adjusted EBIT declined $7 million and adjusted EBIT margin declined 60 basis points, driven by the changing business mix and the lower reported revenue. Interest expense, including financing interest expense, was $39 million, which was $4 million higher than prior year. Additionally, due to the redemption of our PBIH preferred securities last November, the company will no longer incur a minority interest of roughly $5 million each quarter. Taking this into consideration, the combination of interest expense and minority expense was lower than prior year.

Tax expense on adjusted earnings was $32 million, which was $8 million lower than the prior year. Our tax rate was 32.6% and is in line with our annual tax guidance range of 31% to 35%.

Diluted weighted shares outstanding at the end of the quarter were 186.9 million, which is 6.3 million shares lower than prior year.

Looking at the balance sheet, we ended the quarter with $783 million of cash on hand and short-term investments. Short-term and long-term net finance receivables were $1.52 billion, which is a decline of $118 million from prior year, and reflective of a decline in the financing portfolio. The net change of our total debt, along with the PBIH preferred security, which was redeemed in November, is a decline of $57 million when compared to the prior year. Short-term and long-term debt totaled $3.28 billion, which is an increase of $239 million over prior year. The increase in short-term and long-term debt over prior year is due to the $600 million issuance during the third quarter of last year, which was used to redeem our PBIH preferred security and pay down the commercial paper outstanding at that time. As of the end of the first quarter, we had no commercial paper outstanding.

Looking now to our statement of cash flows. We generated $111 million in free cash flow, which was an increase of $46 million from prior year, mostly due to working capital requirements, in particular the timing of accounts payable and accrued liabilities. During the quarter, we used $79 million to pay down debt, $35 million to pay a dividend to our common shareholders and $12 million for restructuring payments.

Let me now turn to our business segment results. In the SMB Solutions segment group, revenue was $449 million, a decline from prior year of 5% at constant currency and 6% as reported. EBIT was $154 million and EBIT margin was 34.4%, both a decline from prior year of $18 million and 170 basis points, respectively.

In North America Mailing, revenue was $356 million, a decline of 4%. The revenue rate of decline for the quarter improved compared to prior quarters. Equipment sales grew 5% compared to a strong prior year performance. The middle and bottom of the line products, which include our new SendPro offerings, performed well this quarter. Our investments in digital capabilities are showing traction, and our web channel experienced strong growth in the quarter.

The growth in equipment sales was offset by a decline in the recurring revenue streams, largely around our lower financing and supplies revenue.

EBIT was $141 million and EBIT margin was 39.7%, a decline of 360 basis points from prior year due to the decline in higher-margin recurring revenue streams, but improved 20 basis points when compared to the prior quarter.

In International Mailing, revenue was $93 million, a decline of 7% at constant currency and 11% as reported. Revenue performance declined year-to-year at similar levels to prior quarter. Equipment sales and recurring revenue both contributed to the decline. The rate of decline in recurring revenue streams decreased compared to the prior quarter. EBIT was $13 million and EBIT margin was 14.3%, an improvement of 370 basis points from prior year, largely due to improved equipment sales and lower expenses.

In the Enterprise Business Solutions segment group, revenue was $222 million, growth of 4% at constant currency and 3% as reported. Both comparisons are above the long-term market range for growth. EBIT was $40 million and EBIT margin was 17.9%, both improvements from prior year of $4 million and 130 basis points, respectively.

In Production Mail, revenue was $89 million, growth of 3% at constant currency and 2% as reported. Equipment sales grew 12% over prior year on higher inserter and sorter equipment placements. This quarter, we saw strong placements, in particular with our innovative Epic Inserter product, which helps our clients improve their productivity. Supplies revenue also grew over prior year. Support services declined as a result of the shift we saw last year in some in-house mail production clients moving to third-party service bureaus who tend to self-service. EBIT was $9 million and EBIT margin was 10.1%, an improvement of 230 basis points over prior year, driven by the growth in revenue and lower operating expenses.

In Presort Services, revenue was $133 million, growth of 4% and driven by higher Standard and First Class mail volumes processed. EBIT was $31 million and EBIT margin was 23.2%, an improvement of 50 basis points from the prior year, driven by the improved revenue performance.

In the Digital Commerce Solutions segment group, revenue was $166 million, growth of 11% at constant currency and 9% as reported. EBIT was a loss of $1.5 million this quarter, which is an improvement from prior year when we reported an EBIT loss of $6 million for this segment group.

In software services, revenue was $78 million, growth of 3% at constant currency and 0.4% as reported. Revenue benefited from Customer Information Management license revenues as well as growth in data and SaaS revenues. This is partially offset by lower maintenance revenue.

We are seeing progress in developing the indirect channel, which contributed to the revenue growth this quarter, closing several deals, including offerings around financial crimes and compliance and big data solutions. The strategy we put forth is gaining traction, but there's still more work ahead of us as we continue to ramp up this channel. EBIT was $3 million and EBIT margin was 3.5%, an improvement of 680 basis points from prior year due to the savings from cost reduction initiatives.

In Global Ecommerce, revenue was $88 million, growth of 20% at constant currency and 17% as reported. The continued acceleration of double-digit revenue growth was largely driven by strong volumes in the U.K. outbound marketplace as well as growth in overall retail volumes. We continue to add retailers to our cross-border platform and to invest in shipping APIs for our domestic shipping business. We also continue to invest in other future growth opportunities, such as enabling our e-commerce retailers to offer their goods on marketplace sites, supporting retailers to generate consumer demand; and investments in order to expand our cross-border offerings to additional outbound countries. EBIT was a $4 million loss and EBIT margin was a negative 4.8%. We are focused on the long-term opportunity in e-commerce and continue to make investments that expand our footprint and the capabilities that we bring to our clients.

Let me wrap up with the full year outlook. We are reaffirming our 2017 guidance with revenue on a constant currency basis to be in the range of 2% decline to 1% growth when compared to 2016, adjusted EPS to be in the range of $1.70 to $1.85 and free cash flow to be in the range of $400 million to $460 million. We continue to expect revenue to benefit from improving trends throughout the year from new products and digital capabilities within SMB, volume growth in Global Ecommerce, partner channel expansion and improvement in the direct channel in software and expansion of the Presort Services network. We remain focused on driving ongoing improvements in cost and expense from our operational excellence initiatives.

We are committed to a high-performance culture, and part of that is performance-based variable compensation. We expect a reinstatement of variable compensation when compared to 2016, which largely impacts the second, third and fourth quarters on a year-to-year comparison.

We continue to invest in bringing innovation to our clients through R&D investments. We expect incremental R&D expense throughout the year, related to investments in our growth initiatives around Global Ecommerce, the Commerce Cloud and new product launches. And our annual tax rate on adjusted earnings is expected to be in the range of 31% to 35%.

Marketing has been an important part of our model in illustrating our digital capabilities and brand awareness. Hopefully, you have all seen the latest ads launched in early April. We expect marketing spend to be up year-to-year. The timing of our marketing spend in the second quarter will yield an incremental $0.04 per share of expense when compared to the first quarter and when compared to the prior year. This was anticipated in our full year guidance. Our first quarter results are a solid start to the year. We are reaffirming our full year guidance, and we remain focused on continuing the transformation of Pitney Bowes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Kartik Mehta, Northcoast Research.

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

Marc, a question on Global Ecommerce. You talked a little bit about focusing more on growth than profitability right now because the business is doing so well. Based on your comments, do you see any changes to some of the profitability goals you had outlined at Investor Day a couple of years ago?

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

No. We're still confident on the long-term ability of this business to capture profits as we described. That said, we're also reaffirming that in the short to immediate term, revenue growth is our objective. This is like every other platform business in that the best way to drive long-term profitability is to drive scale and volume. Now we have opportunities to do that both with new clients as well as some competitive win backs. So those 2 things, while seemingly incongruent, fit very nicely together.

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

As you look at the software business, Marc, obviously, how would you compare this quarter to your expectations? And then looking at the backlog, any thoughts on how maybe next quarter or rest of the year will pan out?

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

Sure. I would say that the first quarter was a reasonable start. That said, it was still more concentrated in too few of clients and too few of transactions. So what we're looking for as we add new channels is to broaden our reach, drive more transactions. As I said in my remarks, I believe this is a second half story, and I still think that is true. We're particularly pleased about the progress we're making with indirect channels, though. That is a part of our strategy that you can begin to see the fruits of our labors. They were almost 50% of the license growth for the quarter. It was all of the absolute revenue growth. So as that channel continues to come online and there's a lot of opportunity to come online, we expect broader success in the marketplace.

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

And then just one final question on free cash flow use. I know in the past, you've talked about maybe some bolt-on acquisitions, but I think -- I'm wondering as you stand today, maybe what your thoughts are on use of free cash flow, especially to buy back shares or make a change in the dividend.

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

Yes. Our strategy on use of cash remains the same. We outlined the strategy a couple of years ago that said we were going to be balanced between share buybacks and acquisitions. Subsequently, we invested $350 million to $400 million in share buybacks. And now our focus is on strategic flexibility. Read that as if we can find acquisitions that make sense, particularly in our e-commerce business, we'll do that. That said, it's -- they've got to be the right property at the right price.

Operator

Our next question will come from the line of George Tong, Piper Jaffray.

Keen Fai Tong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Software sales showed positive growth in the quarter, in large part because of the ramping indirect sales channel, as you indicated. Can you discuss how your direct sales channel is performing, including how conversion rates and pipeline growth are progressing?

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

I would say that we speak of these things like they're stand-alone channels. When you really unlayer a transaction with the indirect channel, you'll find that the direct channel is helping. So I would say, as it relates to the support of the indirect channel and their participation of these broader pursuit teams, the direct channel performed reasonably well. On the other side of it, when the direct channel performs on its own, I think it continues to have the same sets of issues, in that we're very successful with the group of clients we have been doing business with. But we're much better advantaged when we go hunting for new clients to hunt with new partners. Conversion rates were, I would say, improved but still not where we want them to be.

Keen Fai Tong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Got it. Very helpful. And on the e-commerce side, as it relates to margin, can you elaborate on the types of investments you're making in e-commerce and what additional investments you may have planned for the segment going forward to achieve your growth objectives?

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

Stan's itching to get in, so I'll let him answer a question.

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Sure, George. Look, there are several areas of investment in e-commerce. We'll start with shipping APIs. That's something that we continue to invest in the products, the technology there and the team. You'll see additional capabilities come in throughout the year on those shipping APIs. Also investing in complete marketplace, and that's really to build out a platform, the integration capabilities for our retailers that offer their goods on those global marketplaces. And we saw a great performance here in the U.K. in that area, certainly helped a little bit with FX. Australia is now up and running. We continue to look in that area in particular for future opportunities. Obviously, we're going to continue to look at operational excellence because as we're onboarding these clients in those areas, this is heavily manually intensive right now. We think there's good opportunity to streamline that in the future, and that would give some EBIT opportunity. We continue also to invest in that consumer experience. Look, we're here to help our clients and the retailers both with demand gen and affiliated marketing to keep that competitive advantage and really offer the end-to-end border -- broader experience. And then those outbound markets is an area of key investment for us as we bring them up to speed and gain scale. So those are areas of investment across e-commerce. We continue to look for the right opportunities to continue the 20% growth.

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

Let me just double click on one point Stan made. As I intimated in my remarks that we had a good selling quarter from e-commerce, which was true, we didn't realize any of the revenue of those efforts in the first quarter. That said, we did incur the expense of integrating those clients into the platform. So that's one that begins to flip as you get throughout the course of the year. So we're very pleased about the prospects of this business. As Stan said, we've got lots of good places to invest where we think will drive better results, improve results of our clients and also drive the economic profit that we had contemplated.

Operator

Our next question will come from the line of Glenn Mattson of Ladenburg Thalmann.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

You talked about -- in the software space, it was nice to see that segment rebound a little bit. But the concentration in 2 few accounts, was there 1 or 2 sizable orders that we should call out so that we know kind of as we think about comparing these results to this quarter next year, something like that? Was there any big deal? I know they have been selling the pipeline.

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

There was 1 transaction that I would say wasn't a super large transaction, but it was a good-sized, chunky transaction. If you look at large deals this quarter versus large deals first quarter of last year, we're a couple million dollars above. So -- and that kind of illustrates the point, Glenn. I mean, I'd like to have 30 transactions of $100,000 as opposed to a single $3 million transaction. Well, certainly not as opposed to but in addition, I'll certainly take the $3 million transactions. But we want broader, broader reach.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

And you talked about the indirect channels. So was it that it came in within a new large transaction, one that had been in the pipeline for some period of time that's finally converted?

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

Well, it was a new customer. And certainly -- I mean, these transactions, as I said before, take 6 to 9 months sales cycle. So if you go back to the life cycle -- and this is why I think it's a second half story. The life cycle of bringing on this indirect channel, you go through the dance of convincing that you've got the right technology, followed by enabling their people, followed by demand generation, followed by the life cycle transactions. And so when I say it's a second half story, it's just when those partners become online. If you decompose the partners that we've recruited over the last several years, 1/3 of them have been generating demand and driving revenue; 1/3 have active pipe but haven't gotten any revenue yet; and 1/3, we're still waiting to get productive. So I think that gives you a sense of where we are in the movie, but also importantly, the potential of the strategy.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Okay. And one more question. Just on the -- equipment sales were solid. And I believe it was mentioned that it was some of the smaller equipment that sold well. Is there -- is part of this the rollout of the SendPro suite? I guess, there's 2 questions. Can you talk about how that's going? And is that driving some equipment sales?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Sure. So at equipment sales, if we look at North America Mailing specifically, equipment sales were up 5%. And those really focused around the middle and kind of bottom of the line products, which is around our new SendPro offerings, which performed well. And that also includes the digital capabilities. Now we continue to expand that family overall. But in regards to SendPro, we are seeing good traction. The number of accounts with SendPro actually more than doubled versus 4Q. But a key component of this is when you look at digitally connecting these clients, which is what helps enable SendPro, we've done a lot of work in that space. And in fact, when you look at the digital connection, that's up 40% over year-end. And more importantly, those that have actually connected is up over 80% compared to year-end. So we're pleased with the progress. We continue to invest. That's part of the R&D investment you saw earlier. We continue to invest in that product line, and you'll see new products come out later this year.

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

Let me just add 2 points. First of all, in the first quarter, equipment sales was off of a pretty tough compare last year, if you go back and look at it. So we're particularly pleased. Secondly, let me just intersect 2 points because I think it illustrates the power of the strategy. So Stan talked about the new low-end products, and you see the progress of those. And when you actually look at the units or number of customers we're touching, it's measured in the tens of thousands. None of that would be possible unless you had invested over the last several years in the digital channel. It's simply the physics of getting that many transactions to that many clients over the last several quarters would have been possible. So it's -- when I look at the texture of the quarter, we were pleased with the revenue, for sure, and the profit, and that's all good progress. But what you see, whether it be the software indirect channel, some of the new software growth initiatives, the competitive wins in e-commerce, the new clients in e-commerce, the digital channel intersecting with the new offerings in SMB, you begin to see a bunch of things coming together. And candidly, we've seen this for a period of time, it just wasn't quite enough to move a quarter. Now it's starting to move the results, and that's why we're pleased with where we are. I mean, the quarter was good. The texture of the quarter felt really good.

Operator

Our next question will come from the line of Brian Turner, JPMorgan.

Brian Turner

Just one on the balance sheet, if I could. There were some rating agency sensitivities following the back half of...

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Brian, I apologize could you speak up a little bit?

Brian Turner

Sure, can you hear me now?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

A little bit better, yes.

Brian Turner

Sure. Just one on the balance sheet, if I could. There were some rating agency sensitivity we saw in the back half of '16. And we just wanted to ask a question on how you think about the ratings trajectory and adherence to the investment-grade rating, I guess, in the context of some of the longer-term strategic initiatives you talked about. And, I guess, how that may play into capital plans, particularly around that September maturity.

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Sure. So look, we look to maintain our investment-grade ratios. And if you look at the first quarter, I think puts us in a good position for the year to deliver on our full year objectives that we had laid out earlier. And when you look at the upcoming debt, if you look at the combination, it's a little over $500 million. And we feel like we're well positioned to deal with that maturity for this year. As we keep going down, it's the progress that we saw in first quarter that's going to make the difference on how we approach this for the year and on the long term. And we're encouraged by our performance in Global Ecommerce growing 20%. We've had the first overall growth at constant currency of modest, at 0.2%. But in over 2 years, we saw growth in equipment sales here 5% North America Mailing as well as growth in equipment sales in Production Mail. And we see a foundation that's getting more firm as we go through. So as we think about the full year, we think that makes sense. We're in a good shape for the year, and that will help us achieve and maintain our investment-grade ratios. As you saw from our announcement, we have no commercial paper at the end of first quarter. And as we look for that bond, we think we're in a good position to deal with that this year.

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

I would say the other thing -- first, it's a great question. We appreciate the question. If you look at the first quarter, I think of the indicators that the debt agencies look at, you would either put a checkmark or a plus sign next to almost every one of them. The other point I would highlight is the cash flow of over $100 million. That's particularly strong. As the existing debtholders, potential debtholders contemplate the credit quality, that cash flow is critically important and I think a very strong first quarter.

Operator

Our next question will come from the line of Shannon Cross of Cross Research.

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

Can you discuss a little bit about what's going on in North American Mailing, both from sort of the product mix standpoint, the supplies and then how we should think about margin improvement probably as I would assume you start to benefit some from the SAP rollout or the -- not the rollout but the fact that it's up and running and doing well?

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

Sure. So the first point I would make is that if you look at the first quarter last year, that was a fairly strong quarter in terms of equipment sales and supplies. So to a degree, I think in order to understand first quarter this year's results, you need to have that particular context. The equipment sales growth was a good sign, as we talked about with, I believe, George. And it's a good sign for the new products and the new channels. We have intimated that we have continual products coming to the market this year. So we think that's encouraging both in terms of sustaining a solid equipment sales performance, but importantly, to begin to mitigate some of the erosion on the meter population base. So as we drive new value into that market, we think you not only get good equipment sales, but you also get a better value proposition to clients who've been struggling with that. Certainly, I would give a tip of the hat to the USPS and some of the rate changes that they made that help that business. So I think it's -- the complexion is good. If you look at the streams, as the equipment sales continue to improve, the financing revenues will moderate. And if you look at the overall population base, that affects the rentals and supplies. So it's too early to call an inflection point, but we're pleased with some of the things that are coming together. And you're right, Shannon, I mean, the benefits of the Enterprise Business platform, we've realized some, but we've got more. And those will disproportionately fall to the SMB base. And I'd point out that, that not only drives operational efficiency, but as I said in my remarks, it enables these new products.

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

And I apologize, I was stuck in the mess that's under Penn Station right now, so I missed a little of the call. But if you could -- I'm just curious as to how you're thinking about what's going on with all the retail stores, and you've got retail closings, you've got growth of e-commerce obviously within your e-commerce business. But how do you think about -- and what are you hearing from some of the smaller customers in terms of the SendPro and the shipping and all of that? Is that -- are you starting to see more of an inflection as commerce moves more online? Again, thinking less about the e-commerce business, which is obviously very focused on that, but more your mailing offerings to some of your larger SMB customer base.

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

So let me start with a broader point. When you look at economic history and you see these moments of disruption, where new technologies or new competitors come into the space, that's when market share changes and that's when value is created. So we see this broadly as an opportunity to participate in new markets, but also to help some great clients that are trying to cope with what are some fairly, substantial and seismic disruptions. So I would say, broadly, we see it as an opportunity to create new value. If you look at our shipping business, I think you can kind of bifurcate it in 2 ways. And candidly, that's what drove the segment reporting change. If you look at from a retail perspective, domestic shipping in particular is a big opportunity for us, and you see that in the APIs. It didn't generate a lot of revenue in the first quarter. It did generate a lot of expense, but we've got a lot of new customers that will continue to come online. The continued phenomenon of Global Ecommerce, we're just at the very beginning stages of, so it was more new and existing clients and that's a good thing. Office shipping is a slightly different kettle of fish, if you will, in a sense it does not -- the market is not going through the same set of disruptions as retail, although there's clearly still opportunity. But to answer your question, if you look at our results with SendPro, it's a pretty good sign that, that's driving a good opportunity for us.

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

Okay, great. And then one last question. Stan, can you talk a little bit about your thoughts after your first -- I'm not sure how many days you've been there, where you see the biggest opportunities and what sort of, I don't know, brought you to Pitney and how you're thinking about what kind of cost changes or opportunities you've seen as you look at the numbers. And that completes my question.

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Thanks, Shannon. So look, coming to Pitney Bowes has been exciting. Roughly, just over 90 days here, and when I first came, I was really impressed with the quality of the people. And as I've been to the Presort centers up in Hartford, I've met with field service teams, I've talked to all areas of the business, and the one thing that impressed me is no matter who you talk to, they really believe in the long-term strategy and they're committed to seeing Pitney Bowes change. Look, we were 97 here this past month, and the team here really wants to see this grow and be long-term successful.

So as I look at Pitney Bowes, some of the things that have excited me here as I first came in, I like the areas that we've invested in, in particular doing this Enterprise Business platform. We talk about it here periodically through the call, but it really is the foundation across which all of this is built that gives us better insight into clients. It gives us the ability to do things like SendPro and digitally connect and will bring us a lot of productivity and efficiency. And I like what Marc and the team have done here. As I look back, and I spent time with Mike when I first came on, the investments into R&D, introducing new products into areas that haven't seen new product in the industry in a long time with SendPro, I'm really excited about. The shipping APIs, I think, are competitive, and I'm excited about the innovation I see coming in the pipeline that will enhance those. And I think we've already seen some traction there with competitive wins in that specific area. And then businesses like our Presort and our Production Mail have performed well this quarter. They both grew. They both contributed. And I like the area that I see in software with building out the indirect channel. So when I look at what Marc and Mike and the team here have built, it's a really good foundation for future success. So I'm delighted to be here. It's been a great experience, humbling, lots to learn, a great team to do it with, and I look forward to the future.

Operator

Our next question in queue comes from the line of Allen Klee of Sidoti.

Allen Klee - *Sidoti & Company, LLC - Research Analyst*

I wanted to follow up with -- on a question on North American SMB and think about the pathway to kind of getting back to where you view the industry as like a 2% to 4% decline. Is a way to think of it as we had ERP disruption in Q2, Q3 of last year, and that lowered kind of the base rate for recurring revenue, as we get to those quarters in this year, then we're kind of looking at more industry normal decline rates and potentially moving back on a year-over-year basis to kind of those type of metrics?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Thanks, Allen. First, let's take a step back and look. If you look, total SMB declined 5%. But if you look at North America, North America declined 4%. So it's in that range of minus 2% to minus 4%. And what we saw this quarter was an improvement in equipment sales. That's an important leading indicator, and it will take ongoing improvement there to help build out the streams. But as you look at that combination for North America Mailing, we're also bringing innovation into this area. And the SendPro is a big step in that, with multi-carrier shipping APIs brings new capability to this client set. So when I think about these clients, we're now offering new product, supported by R&D. We're shipping APIs. We're going to continue to expand that product family out through the year. But we also have new low-end offerings here that give our clients, who may not have the volume to support a meter, an opportunity to print postage and do shipping, and that helps us do retention. So as we look at North America Mailing in the beginning of the year, we're encouraged by the equipment sales increase on a tough compare. And as we look to go through the year, we'll gain productivity savings as we continue to build out the capabilities that we think will resonate with our clients.

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

Let me just add. I think there's 2 important dynamics that are going on in that business. One is, you pointed out, I mean, we will benefit from some fairly easy comparison in the next couple of quarters. And I would say that, that in and of itself would get us an improved range. That said, as we envisioned in our long-term performance, it was something more than a dead cat bounce, if you will. We really see the new products, new channels sustaining performance not just through this year, but through the balance -- through the next several years. So I think both of these dynamics are important. We're careful not to take a false-positive from what are some easy compares. I'll take them, but we envisioned something much more sustained when we contemplated the strategy. And I think what you're starting to see is those pieces coming into place.

Operator

I would now like to turn the conference back over to Mr. Lautenbach for any additional remarks.

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

Sure. Let me conclude with the following. As I said at the outset, we're pleased with the first quarter, good start, most of the businesses performed at or above our expectations. We like getting a modicum of revenue growth. I'd like it to see -- round to a full integer, a round integer as we get into the -- going forward. So that's important. But what I really want to leave you with is the progress that we're making strategically. And that's, to me, kind of the story that I want to make sure people grab on to. And it's -- in SMB, it's the new channels, the new products. We've done a lot over the last 12 months, more to do for sure. The Enterprise Business, in particular Production Mail, has had a string of great quarters in equipment sales based on new products. E-commerce continues to hit the ball, new customers driving growth into new markets, some important competitive win backs, new offerings. In software, we see the beginnings of what we had envisioned a while ago.

I'm careful not to call inflection points. I think it's much easier to see inflection points in the rearview mirror then at the time. So I will reiterate that transformations are never a straight line. But we like what we've seen so far, and I particularly like the progress on the strategic agenda.

So with that, we'll conclude this call. Thank you for joining us this morning, and we'll talk to you in August.

Operator

Ladies and gentlemen, that does conclude our conference call. On behalf of today's panel, we'd like to thank you for your participation in today's first quarter earnings call. Have a wonderful day. You may now disconnect.
