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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Third Quarter Earnings 2022 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 your participants for today's conference call. Mr. Marc Lautenbach, President and Chief Executive Officer; Ms. Ana Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Ned Zachar, Vice President, Investor Relations. Mr. Zachar will now begin the call with a safe harbor overview.

Ned P. Zachar ***Pitney Bowes Inc. - VP of IR***

Good morning, everybody. This is Ned Zachar and I manage the Investor Relations program for Pitney Bowes, and I'd like to welcome everyone to the call this morning. We very much appreciate your interest and participation. Part of my duties includes covering the usual and customary safe harbor information for these calls. So please bear with me for just a few minutes. Included in today's presentation are forward-looking statements about our future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. For more information about these risks and uncertainties, please see our earnings press release, our 2021 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 that are used in the press release or discussed in our presentation materials, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our website. Additionally, we have provided a slide presentation on our Investor Relations website that summarizes many of the points we will discuss during today's call.

Our format today is going to be familiar. Marc Lautenbach, our President and Chief Executive Officer, will begin with opening remarks, which will be followed by Ana Chadwick, our Chief Financial Officer, who will provide an in-depth discussion of our financial results. I'd now like to turn the presentation over to Marc. Marc, the floor is yours.

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

Thanks, Ned. Good morning, and thank you for joining today's call. There continues to be many different currents running through the economy and our business. While we are focused on navigating the moment, our focus is on how we come out of these cross-currents. In many, probably most ways the third quarter resembled the second quarter. SendTech and Presort both grew at constant currency and Global Ecommerce declined driven by the unprecedented strength of the dollar.

The strength and the resilience of our SendTech and Presort businesses will serve us very well in this turbulent market. But even more importantly, these businesses are very well positioned going forward. As you all know, these businesses are strong and reliable cash producers today and into the future. The fact that these businesses are both growing with margins close to the long-term plan bodes very well for the future.

As I mentioned, our Global Ecommerce business is fighting through a dollar, which is at unprecedented highs, a very choppy retail sector and evolving consumer behaviors. We continue to believe that the currency markets will stay unsettled for the foreseeable future. I would characterize our domestic delivery business and our digital expedited business as holding serve in the quarter as we continue to add new customers, which is being offset from some weakness in our existing customers' volumes.

To be clear, we see the decline in volume from our existing clients as a market phenomenon. Our ability to win new customers and regain volume from existing customers is a direct result of our increased service levels, which position us very well vis-a-vis our competitors. That said, the most important dynamics since our last earnings call isn't found on our third quarter income statement. The most important dynamic is new customers we have won, existing customers where we affirmed our going-forward relationship and our resolution with the USPS on ongoing economics that position us very well going forward.

In the third quarter, we signed SHEIN. If you're not familiar with SHEIN, it's one of the largest online fashion retailers in the world. We started processing parcels for SHEIN in the third quarter, and we expect SHEIN's volumes to substantially increase in the fourth quarter. This is a tremendously exciting win.

We also came to terms with eBay North America and eBay U.K. in the third quarter. As you probably know, eBay has been an important customer to Pitney Bowes for over a decade. We could not be more delighted with our going-forward relationship with eBay.

Next, we came to a new agreement with USPS related to our digitally based shipping offerings, meaning how we enable shippers to pay for and label packages to send directly through USPS. As we discussed during the last earnings call, USPS ended the agreements they had with posted resellers effective October 1. While PB was not a USPS reseller, the USPS has structured the market in a way that it made economic sense for us to work through resellers. In the quarter, we successfully concluded a going-forward agreement with the USPS that enables us to essentially retain the economics we earned through the resellers, reflecting the value we provide to the USPS and shippers in the market.

As this market is evolving, we are continuing to see opportunities to expand our digital shipping offerings based on the value and innovation we bring. The most concrete example of this is an agreement we have entered into is one of the largest platform companies in the world to enable shipping from their platform.

A quick final point on all of these third quarter dynamics. We're able to win these new customers and craft a new going-forward agreement with USPS because we have consistently invested in our future. We've invested in our network, our service levels, our capabilities and perhaps most importantly, our team. We have sustained these investments during COVID, supply chain issues and a potential looming recession. Others might have gone weak need in the face of all these dynamics, but we have remained resolute. The sustained investment positions PB very well going forward.

Finally, we continue to build on our third quarter momentum. In the third quarter, we began the quarter at 2.8 million parcels per week and finished the quarter at 2.9 million parcels per week, so a slight improvement, but basically holding steady. Through the first 3 weeks of the fourth quarter, we are running at approximately 3.6 million parcels per week. So you can clearly see the impact of our improved service levels driving volume to our network.

Let me dimensionalize this further. Annualizing this weekly volume increase equals 40 million to 45 million incremental parcels a year. We are looking forward to adding peak volumes to this new baseline. A few comments about capital expenditures and expense going forward, now that we largely have what we need to compete and win in our markets. As I mentioned at the outset of my remarks, our focus is navigating the moment and ensuring we come out of this economic tumult, a stronger company. Consequently, our bias on capital expenditures and expense is towards being conservative. And we'll have more to say, but we expect material savings in 2023 gross expense and CapEx.

To conclude, as Ana foreshadowed at the last earnings call, the third quarter was similar to the second quarter financially. But again, looking back in the third quarter, I'm quite confident that the headline won't be any particular financial metric for the quarter, but the substantial wins that position our business for success going forward.

Now let me turn it over to Ana.

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Thank you, Marc, and good morning, everyone. Unless otherwise noted, I will speak to revenue comparisons on a constant currency basis and other items such as EBIT, EBITDA and EPS on an adjusted basis. Let's start with a high-level review of the year-over-year comparison of our financial statements and segment results. Total revenue for the quarter was $831 million which is down 4% versus third quarter 2021. Excluding the Borderfree divestiture, revenue is down 2%. Gross margin for the company was $264 million compared to $286 million for the same period last year, a 7% decrease. As a percent of total revenues, gross margin decreased 80 basis points to 31.8%. Total EBITDA was $77 million down from $92 million. EBIT was $38 million, similar to second quarter and down from $50 million 1 year ago. Interest expense was $37 million, a slight uptick from last year's $36 million level. The provision for income taxes this quarter was $1.4 million. Adjusted EPS was $0.00 compared to $0.08 in prior year.

At the end of the quarter, weighted average diluted shares outstanding were approximately 177 million.

Turning to cash flow. GAAP cash from operating activities was a use of $36 million for the quarter compared to a source of $71 million in third quarter 2021. Free cash flow was a use of $16 million in the quarter compared to a source of $30 million in the prior year. The differences in cash flow were primarily driven by changes in working capital and lower net income. Those changes were partially offset by lower CapEx and an increase in customer deposits. CapEx for the quarter was $33 million, down from $57 million in prior year. We continue to expect CapEx to be substantially lower for full year 2022 compared to 2021 now that we have essentially completed the build-out of our domestic footprint and have shifted focus to fully leveraging our investment to maximize utilization.

During the quarter, we paid $9 million in dividends and made $4 million in restructuring payments. Looking at the balance sheet. Cash and short-term investments were approximately $607 million at quarter-end. Total debt was $2.2 billion compared to $2.3 billion at year-end 2021. Adjusted for our operating leases and cash, operating company debt was $570 million compared to $533 million at year-end.

The following segment information is summarized in our press release and slide presentation, both of which are posted on our Investor Relations website.

I'll start with Presort. Presort revenues were $145 million in the quarter, which is a 4% improvement from last year. Total sortation volume of 3.8 billion pieces was down 9% compared to prior year. However, new customer additions and increased revenue per piece, again, more than offset the volume declines. EBIT for the quarter was $21 million, essentially flat to last year. EBIT margin was 14%, which is a 500 basis point improvement to prior quarter and a 90 basis point decline versus third quarter 2021. The decline in year-over-year margins was driven largely by increased labor and transportation costs, including the change in our allocation methodology, which we have previously discussed.

Bottom line is, we expect additional progress in fourth quarter, driven by higher revenue per piece, improvements in transportation efficiency and productivity gains from the ongoing sorter refresh. We also expect the usual uptick in seasonal volumes, largely in marketing-related services.

Moving to SendTech. SendTech reported revenues of $332 million in the quarter, a slight increase over prior year, which is a significant accomplishment for a business that has natural headwinds. Equipment sales and shipping-related revenues continued to fuel the growth. Shipping-related revenues, which is now 12% of segment revenues, increased 18% versus prior year, and the SendTech team continues to build the shipping pipeline. SendTech EBIT was $95 million compared to $99 million in prior year, and EBIT margin was 29%, down 60 basis points from third quarter 2021. Margins were impacted by inflationary pressures and a higher mix of lower-margin equipment revenue. In response to higher input costs, we introduced select price increases in the quarter, which will be an offset moving forward.

We also continue to see stability in our finance portfolio, driven by growth in our lending business, and ongoing strength in our equipment sales, which translate into lease receivables and bodes well for future finance revenues. As of quarter-end, net finance assets were $1.15 billion, flat quarter-to-quarter. Also, credit quality inside the financial services portfolio remains excellent. 30-day delinquencies are down 40% from prior year and remain under 2% for the third consecutive quarter. Despite the macro headwinds, we see healthy payment trends across our finance portfolio.

Let's talk about Global Ecommerce. Total segment revenue decreased 10% to $354 million. The decline, excluding Borderfree, which was divested on July 1, was 7%. Organic decline was driven by weakness in cross-border and to a lesser extent, lower digital volumes. Domestic Parcel revenues were up 2% in the quarter. Segment gross margin in the quarter was $20 million compared to $34 million a year ago. The year-over-year improvement in Domestic Parcel gross margin was more than offset by lower contributions from cross-border. Segment EBITDA for the quarter was negative $17 million compared to breakeven in the third quarter of 2021. EBIT for Global Ecommerce was a loss of $35 million compared to a loss of $21 million a year ago.

Let me break down the cross-currents inside the segment. Additional progress in Domestic Parcel is more than offset by ongoing macro trends negatively impacting cross-border. Compared to prior year, cross-border volumes, revenues and gross margins are down in excess of 25%. As you may recall, our cross-border business is largely focused on helping our clients move parcels originating in the U.S. to international destinations. As we noted last quarter, the strength in the U.S. dollar and macro weakness, especially in Europe, continued to put pressure on international e-commerce activity. As a result of the tougher environment, we are taking meaningful steps to mitigate the headwinds, including the launch of U.S. inbound services from the U.K. and Canada as well as a new intra-Canada service.

Let's move to the Domestic Parcel business next. In the quarter, parcel volumes were 36 million, down 4 million from prior year. Lower volumes were a result of softer overall e-commerce activity and a continued decline in inbound parcels from China. On the other hand, revenues were up 2% year-over-year on higher revenue per parcel. We continue to believe Domestic Parcel is our biggest opportunity with a large and growing addressable market. It has been a significant investment priority over the last several years from automation to management systems to human capital, resulting in much improved service levels and more predictable costs. Since late March, on-time performance has been consistently in the low to mid-90% range and the much improved gross margin levels highlight our ability to better match resources against the volumes in our facilities.

Despite lower volumes year-to-date, gross margin per parcel improved $0.29 compared to the same period in 2021. Our Domestic Parcel network is well positioned to handle peak volumes this year as well as an expected increase in the run rate parcel volumes driven by recent new client wins. Since the beginning of the third quarter, 32 new domestic parcel clients have gone live ahead of peak. New clients are expected to account for roughly 20% of fourth quarter parcel volumes. New notable clients include SHEIN, Hudson's Bay and Japan Crate.

As a direct result of better service levels, we are seeing material pickup in volumes from existing clients, such as BarkBox, SuperGoop and Victoria's Secret. We are already seeing the volume uplift in October. On a month-over-month basis, weekly volumes have grown over 25% to 3.6 million. We are encouraged by the healthy increase in volumes which are critical in driving margin improvement.

As we stated in our materials from mid-September, we expect annual run rate volume levels in the Domestic Parcel network to exit the year at approximately $195 million to $200 million. We are reaffirming our expectations that the Global Ecommerce segment will generate positive EBITDA in the fourth quarter. Also, for full year 2023, we are targeting segment EBITDA to exceed CapEx. This assumes ongoing pressure in cross-border and reflects our new agreement with USPS and eBay, which we will discuss next.

Last quarter, we also discussed the changes in the USPS reseller program. We now have finalized a new agreement with USPS that enables us to maintain and possibly improve the economics we had historically generated from the reseller ecosystem. The technology-oriented capabilities we have built over the years which supports substantial volumes in the USPS network were integral to the new arrangements with USPS and reflect the benefits of our innovations to both USPS and shippers.

We have also finalized a new agreement with eBay, and we are pleased to continue to be an integral part of their international shipping program.

Shifting gears. Given the current macroeconomic environment, we're taking actions to control spend. We expect to generate $50 million in gross annualized savings, a key headwind against these savings will be the restoration of variable compensation. In addition, we expect to reduce 2023 CapEx by $20 million compared to 2022, which will be roughly $70 million lower than 2021 levels.

Last, let me provide some perspective on the outlook for the full year. We are reaffirming our previously communicated full year 2022 revenue and EBIT guidance ranges. We also expect free cash flow to be positive for full year 2022.

To recap the quarter, SendTech and Presort continue to execute well, demonstrating the durability of our business models. For Global Ecommerce, we look forward to improved results driven by recent client wins, which has already begun to generate higher volumes. While our free cash flow expectations are lower given the working capital considerations, year-to-date EBITDA, less CapEx, interest expense and taxes represent a solid improvement versus the prior year. We remain committed to being a consistent cash flow producer with appropriate amounts of liquidity as we tackle a more challenging macro environment. We look forward to your questions. Operator, please open the queue.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Ananda Baruah.

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

Thanks for the incremental context and the incremental metrics, that's really helpful. It also opens up a whole new line of inquiry here. So I guess, just to start, at the high level with the parcel contribution from the new customers in U.S. domestic for Global Ecommerce, what -- how are you guys -- and then given the trends that you provided, the year-over-year trends you provided for September quarter. How are you guys thinking about year-over-year volume potential for Domestic Parcels for December now?

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

Great. Thanks, Ananda. I appreciate the question. And I'm glad you found the incremental metric helpful, and we'll continue to try to provide those. We're tremendously excited about the volume increase that we saw in October. As I said, if you annualize that, that's 40 million to 45 million incremental parcels a year. Think about an average margin contribution of $1.40 a parcel, so you can quickly see $60 million of incremental EBIT contribution if that maintains.

In terms of the quarter, I think there's a couple of different dynamics that are running through the quarter, not the least of which is, as you know, I'm not better than anyone. There's 2 Qs in quarter-to-quarter and year-to-year. So if you go back to last year, which was an unusual quarter in any sense. In October of 2021, there were 100-plus containerships circling the port of Los Angeles that were waiting to drop off goods. So that, obviously, added to a fair amount of angst from a consumer perspective about supply chain worries and if they were to order something online, would they actually get it.

If you fast forward to this year, that comparable number of ships that circle in the Los Angeles port is less than 5. So what I would say is last year was unusually depressed because of some very unusual issues in supply chains. You put on top of that the concern that all of the participants in the industry had about labor. We not only got labor early, but we probably overstocked to make sure that we could handle all the service levels. So there's a lot of different dynamics in the year-to-year.

What I would say about the fourth quarter is there's 2 dynamics that I'm looking at, that are really important. One is what happens during peak, and that's a function of consumer behavior, retail broadly. So think of those 6 weeks that start a little bit before Thanksgiving that run through Christmas. That's its own dynamic and will be very important for the quarter. The other dynamic is kind of what we alluded to in October, and that is what is the run rate of that business. So as I think about the going forward Global Ecommerce economics, it's predicated on volumes, but it's kind of ongoing volumes. So I tend to airlift peak out of that dynamic. So that's why that 3.6 million parcels is so important because it begins to foreshadow what your run rate is for that business going into 2023.

So all that being said, I mean, the short answer to your question is right now, we expect volumes in the quarter to be up year-to-year and quarter-to-quarter pretty materially. But it's predicated on peak, which is people think it's going to be back to a more normal peak, but it's -- there's still some unknowns there. So hopefully, that helps.

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

Yes. No, that's great context. And it sounds like the price -- sort of price increases are -- there's some structure to it. And so it sounds like prices would be up again probably Q-over-Q and year-over-year. But can you unpack the -- let's just spend a moment there. Can you unpack the price increases for us as well? How structural are those? And what are some of the underpinnings?

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

They're structural in the sense that they are industry-based for the quarter. So think of $0.50 a parcel or kind of in that ZIP code for the quarter, that extends through peak. And then as we get into next year, then there'll be -- the industry has increased prices next year, both UPS and FedEx. We're still working through that. I think FedEx and UPS increases have been 6% to 7%. So we tend to kind of follow the industry. So hopefully, that helps answer your question.

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

Got it. Okay. No, no, that's very straightforward. Let me just actually sneak 1 more in here before I cede the floor. On the new customer wins, it sounds like you guys -- well, at least the way that it was -- the way that you guys went about describing it had a bit of a new ring to it than past quarters, and you've talked about wins. And so I guess, I'm just wondering, is there something -- have you reached some sort of critical mass tipping point that you're getting more and more faster, bigger and more faster? And is this something that you expect and we could expect to continue into the future from a win-rate perspective?

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

Great question. So throughout the course of the year, and you all probably got tired of saying it -- or tired of hearing it. I got tired of saying it. I kept on talking about all of these wins but the revenue was in front of us. We kept on talking about customer wins, and we're integrating them into our network. Well, what you began to see a little bit in the third quarter, I mean, a little bit but you saw materially in October is those wins that we've had throughout the year begin to hit our network. The volume started to be realized. So to a degree, it's just a continuation of what we've been talking about and is the realization of those wins in our network, the revenue and the incremental economics.

As Ana said in her remarks when we said before, that's all due to the hard work that the team has done to improve service levels, to improve customer experience with the network. So we think it's -- we think the fundamentals of that business are very strong going forward, whether it be the overall economic improvement, the service-level improvement, the customer satisfaction improvement. And I would be remiss if I didn't add our employee experience in the business is terrific. So there's clearly some choppiness that's going on right now in the market, but if you look at the underlying fundamentals that really drive that business going forward, we're very optimistic.

So the revenue and the parcels that we saw in October were realized wins. Likewise, we have a very strong pipeline in the fourth quarter. So we've got probably over $100 million of revenue that's signed that we're working on integration, and we've got a very strong late-stage pipeline. So while it's hard to predict what's going to happen in the domestic market or even harder what's going to happen in the international market, we do think that the new wins that we've been able to achieve are going to allow us to outrun those dynamics going forward.

Operator

Our next question comes from the line of Anthony Lebiedzinski of Sidoti & Company.

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

Thank you for also providing additional perspective on your current trends. So just within GEC, obviously, you guys talked about the headwinds from cross-border. Now as you go into the fourth quarter, I guess I would imagine that the mix, obviously, changes of the business between Domestic Parcel and cross-border. So do you see cross-border being less of a headwind in 4Q versus 3Q? I know it still will be a headwind, but I just wanted to get a better sense given the changes of the seasonality of the business.

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

Got you. So to be clear, and I said it in my comments, what's causing the headwinds in cross-border is the currency disruptions, particularly the dollar strength vis-a-vis the pound and the euro. As I said in my remarks, well, we expect that to continue. At least for planning purposes, we expect that to continue. What you will see over time, and I kind of said it is we think the Domestic Parcel opportunity is so large that the mix of the business will continue to shift. So I don't see the headwinds subsiding in the near future. I think in this country, we're going to continue to see interest rate increases. I think Europe and the U.K. is likely to lag. So those dynamics aren't going to change. But what you'll see over time is the domestic parcel market overwhelms and kind of outruns those declines.

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

Okay. Got it. Okay. And then just in terms of -- again, just staying within GEC, so obviously, new clients came on board. It sounds like 3Q wasn't too much of a benefit. But I'm just curious to get a better perspective of your business as far as your organic or same client basis as to what you saw in the third quarter?

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

Yes. So I would say it was mixed. I mean, in some ways, it very much mirrors what you read in the newspapers. You see some retailers sort of working their way through the moment quite well, others more difficult. I would say our experience is similar. We've got a handful of customers that are experiencing some pretty substantial headwinds. We've got a few that are kind of holding serve. And then we've got others that are doing reasonably well. So it's hard to generalize across the entire customer base. But regardless, the new customers and SHEIN is a perfect example -- are so significant in terms of what they can provide to the network that a little bit of choppiness kind of on the tail. I think at this point, we're in a reasonable position to outrun.

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

Yes. And SHEIN certainly should be a very valuable client for you. So congrats on signing them. A couple of more questions, if I could just sneak those in. So last month, you did -- it looks like a relatively small acquisition for Presort in Salt Lake City. Can you just comment on that and whether you're open to doing additional acquisitions there?

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

Sure. So let me take it up a level because I think it speaks to capital allocation, which I know is on many of our investors' minds. So as we contemplate capital allocation, I continue to come back to the phrase, strategic flexibility. And what strategic flexibility means, in practice, is that you're able to make opportunistic acquisitions that perhaps would not have been available to you in a different economic moment. So we actually made a couple of acquisitions in Presort.

We'd like to make more because those are instantaneously accretive or generally quickly accretive to the business. So the economic pressures of the moment, coupled with volume decreases of first-class mail puts pressure on both our -- to a degree our competitors as well as our clients to achieve the 5-digit densities that they need in order to have proper economics of that business. So when I talk about strategic flexibility, it's so that we can take advantage of those moments and continue to invest in our business in a way that is durable going forward.

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

Got it. Okay. And then lastly, as far as labor and transportation costs impact in the third quarter and any sort of expectations for fourth quarter?

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

Yes. So let me talk a little bit about labor because I think it's interesting and it speaks to the efficiency that the business is realized. So if you go back to 12 months ago and our labor, particularly in GEC, we already had the labor on board for peak for GEC for 2021. Fast forward this year, we've been able, because the labor market is more predictable to defer adding the incremental temp labor that you need in order to accommodate peak. So the first thing I would say about labor in the fourth quarter is we're going to increase, but it's going to be later than last year.

The second thing I would say, and this speaks to the efficiency that the team has been able to drive, and I mean just a terrific job. We have about the same amount of permanent employees within our GEC network as we move into the fourth quarter and peak. So think of that as kind of about the same. We'll execute peak, however, with half the number of temporary workers that we had last year. And that just speaks to the -- and we're more confident, but also how much efficiency the network has been able to drive out in the last 12 months. So substantially less labor in order to accommodate what we're thinking is approximately the same volumes that we were planning for last year, although they weren't realized.

So labor much more efficient at the unit level. I would also say that the labor market increases have subsided. So I've been to several of our sites in the last couple of weeks, and we're still paying good, healthy wages, but I would say that the premium has abated a touch. So I was in our Chicago site a couple of weeks ago, I was in Columbus last week, and I'm going to Baltimore this afternoon. And what you see is we're still paying good wages, but it's not -- don't have the same kind of labor pressure from a unit cost perspective as we did when there was less labor.

From transportation, clearly, transportation market, and you can see it in the spot markets. I would -- some sites of transportation is in recession. I'm not quite sure I would say transportation is in a recession, but it's -- the costs are clearly abating. So you've got a much more reliable set of underlying economics to manage the network. I would say in Presort, similar dynamics than in GEC.

Operator

Our next question will come from the line of Kartik Mehta of Northcoast Research.

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

I wanted to get a little bit your thoughts on Global Ecommerce. I know you provided a lot of good commentary. But seems like there's lots going on there. You have price increases, the macro headwind, the U.S. dollar, you have new customers coming in. You've talked about maybe cost cuts and managing CapEx better. If you roll all that up, what do you think that means for profitability as we move forward, maybe what it was 6 months ago to where it could be now considering all the dynamics that are happening in that business?

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

Yes. I would say Gregg made some comments a couple of weeks ago in Phoenix. In essence, he made a couple of comments that I think are important. So the first thing I would think he said was that the exit volume for the quarter was 195 million to 200 million parcels going into '23. I want to reaffirm that. I think there's probably some bias upward on that number, but we'll talk more about that going forward after we see a couple more weeks. As we think about the breakeven of that business, I think it was between 230 million and 240 million parcels.

So we're starting to sniff at that from an EBIT perspective. But what I would say is kind of most important and honest at it this morning, is EBITDA minus CapEx, and I would perhaps take a slight issue with how you phrase the question. I think CapEx has always been managed very well. It's just we've finished the building out of our networks. So we're kind of done so we don't have the use for CapEx going forward that we have had in the past. But EBITDA minus CapEx is positive.

So we think of that this kind of a cash flow positive position for that business. So in essence, if you're an equity holder right now, you have an option for GEC, which you can argue how it's valued in the stock or not valued in the stock. But it's valued fairly low way, but that option is now starting to move forward at a 0 incremental cost. So that's a very important dynamic. I believe -- I'm a shareholder. So as I think about it, I think about that value that can be realized on an option without incremental cost or expense going forward.

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

And then maybe one, just on the Presort business, very good margin quarter for you, good sequential job. And so as you look at that business going forward, what do you think is a reasonable expectation for margins in the Presort business?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. So -- thanks for the question. So as we've said before, Presort should have EBIT margins in that mid-teens range. And we are attaining that as we speak. We will continue, as Marc mentioned, with the tuck-in acquisitions. Those tend to be EBITDA accretive pretty quickly. And we have been investing in upgrades of sorters. And with that, we will see and we are already seeing the labor productivity improvements coming out of that. So we feel pretty good with EBIT margins in the mid-teens.

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

I would say on -- I think Ana's answer is perfect. So one of the opportunities that we haven't fully dimensionalized yet is what is it that robotics and automation can produce for that business. So if you think about the investments that we're making in Global Ecommerce and automation, it's likely to be different automation, but robotics can take out substantial labor costs in our Presort business. So there's all kinds of opportunities for innovation and further cost reductions, particularly as we drive automation more deeply, both from a conveyor and sorter perspective, as Ana said, but also from robotics.

Operator

Our next question will come from the line of Matt Swope of Baird.

Matthew Warren Swope ***Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst***

Maybe if I could switch over to the capital structure for a second. Ana, could you talk about your thoughts on this 2024 bond maturity that you have and how you guys are going to deal with that?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. So first of all, as we all know, there's unsettlement in the capital markets, and we're closely monitoring and watching. On the other side, we have several options that we are exploring, everything from, of course, cash on hand to cash that we will generate, revolver and secured capacity that we have in the event that the unsecured markets were to be unsettled. So we feel pretty comfortable, and we have several alternatives that we continue to evaluate as time progresses.

Matthew Warren Swope ***Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst***

Are additional asset sales like what you did with Borderfree a possibility that could help there?

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

Listen, what I've said about asset sales is if an asset in the long term going to be worth more to somebody else than it is to us, we will certainly consider those types of divestitures. What I would say right now is I like my portfolio.

Matthew Warren Swope ***Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst***

And to that point, you feel good enough about your liquidity and other options that you don't feel pressure to do that?

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

I'll answer that in one word, absolutely.

Matthew Warren Swope ***Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst***

That's helpful. And then maybe just a little bit more of a nitty-gritty one probably back for Ana. In the reconciliation to free cash flow in the press release today, there's -- one of the larger add-backs is a change in customer deposits at the Pitney Bowes Bank. Can you remind us what happens and how that works there with the bank? And maybe if you could give us even a little broader overview. Is the current interest rate environment a benefit to the PB Bank?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. So let's take a step back on why we have these deposits at the bank. The primary reason why we have the deposits are to fund meters and meter usage. And what we have seen historically is that there is somewhat of a seasonality out around the third quarter close where we see a bit of a spike. Most of these deposits carry little to no interest because it is a reduction of complexity of our business model to facilitate the meters. So interest rates have not historically played any significant role in the deposits. It's mainly due to facilitating of our business model all around the meters. I hope that gives some perspective.

Matthew Warren Swope ***Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst***

Not bad. That is definitely helpful. And how about to the finance receivables part. Is there any -- back to the financing question, is there any ability to securitize those receivables or otherwise monetize those given as you said we're in such a different capital market?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. I mean it's a great question and one that we continuously assess, and we will continue to assess going forward.

Operator

And our next question will come from the line of Tim Call of The Capital Management Corporation.

Tim Call ***- The Capital Management Corporation***

I was wondering with the fixed maturities and interest rates you have with your debt and the market interest rate increases, whether that alone will make it so that your net interest expense will fall or rising interest income and locked in interest expense?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

So let me take a step back. In our debt instruments that we have to finance our business, we are roughly 70% fixed which gives us a good position as there's fluctuations, and we've seen that upward pressure in interest rates. So -- and then, of course, as the debt maturities come, we will be looking to adjust our interest expense going forward.

Tim Call ***- The Capital Management Corporation***

And with over $0.5 billion cash, in the '24 bonds trading at a significant discount to par, could you go out to the market and buy back short-term debt right now at a discount? And would that be accretive to earnings?

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

It's a very good question, and we constantly evaluate our capital allocations. And we will be doing that ongoingly. So we are very well aware of where the debt is trading, and we're looking to make sure we have the right trade-offs between the different uses of cash.

Tim Call ***- The Capital Management Corporation***

Well, congratulations on setting the company up for success, especially in this critical fourth quarter. Winning clients in this fourth quarter appears to be that it might be very different than the last fourth quarter, and you'll take advantage of it. So thank you for all that hard work.

Ana Maria Chadwick ***Pitney Bowes Inc. - Executive VP & CFO***

Thank you.

Operator

I would now like to turn the conference back over to our President and CEO, Mr. Marc Lautenbach, for any closing remarks. Please go ahead, sir.

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

I'd like to conclude by thanking our employees. They have just done tremendous work not just in the last quarter, but over the last several years, you think about what they've had to contend with, whether it be COVID or supply chain issues or repositioning the network or for that matter, reposition the entire business in such a terrific way going forward, and that doesn't happen without a lot of hard work from lots of different folks.

We didn't talk about SendTech today at all, which, to a degree, I'll take as a good sign, but it shouldn't be lost on anyone that's certainly not lost on us that, that business has transformed itself. And as we -- as the last couple of questions have kind of been circling around the debt, SendTech stabilization and SendTech's cash flows are so important as we think about the capital structure of the company and the fact that, that business has transformed itself, positioned itself for top line revenue growth, realizing top line revenue growth and stabilized profits is just so important to our business model, is so important to our capital structure.

So listen, it's an uncertain environment, and it's hard to be overly confident in predictions. I will tell you, I like the fundamentals of our business. I like what is happening with our products, with our offerings, with our service levels. I like what's happening with our customer satisfaction. I like what's happening with our employee engagement. What all of those speak to is we have a durable business model and whether or not the fourth quarter works out precisely the way that we see right now, who knows. There's lots of different variables.

But that being said, our focus has been and continues to be not just the moment in negotiating the moment, but coming out of this moment in this economic period in a much stronger place. And I think what you saw in the fourth quarter -- in the third quarter rather is all of the signs that are indicative of the kind of strength that we've been working so hard to achieve. So -- we'll have more to say here as we go through the quarter. I know we've got a couple of conferences that Ned and the team are doing, and we'll update you as we see more.

As I said, the fourth quarter is really 2 different currents. It's peak, which is a function of consumer behaviors, which are somewhat indicative of a moment in time. But the more important part than peak for the going-forward economy is what is our going rate volumes in GEC, and we like how we're positioned there. We love the customer wins, and there are some really exciting ones that are in the pipeline.

So thank you for your time and attention this morning. We'll talk soon.

Operator

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