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Q2 2022 Pitney Bowes Inc Earnings Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the Pitney Bowes Second Quarter Earnings 2020 Results Conference Call. (Operator Instructions) Todays 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 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 the safe harbor overview.

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**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. I'd like to welcome everyone to the call this morning. We'd very much appreciate your participation.

Part of my duties this morning include covering the usual and customary safe harbor information. So please bear with me for just a moment. Today's presentation will include 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. For more information on these topics, 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 provide updates to forward-looking statements as a result of new information or developments. Also, for non-GAAP measures, the reconciliations to GAAP accounting can be found in the tables attached to our press release and also on our Investor Relations website.

Additionally, we provided a slide presentation on our website that summarizes many of the points we will discuss during today's call.

Our format this morning is going to be familiar. Marc Lautenbach, our President and Chief Executive Officer, will begin with opening remarks. He will be followed by Ana Chadwick, our Chief Financial Officer, who will provide a deeper discussion of our operational and financial results.

I'd like to turn the presentation over to Marc. Marc, the floor is yours.

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

Thanks, Ned. Good morning, and thank you for joining today's call.

While there are many positive aspects to the quarter, second quarter results were disappointing and below our expectations. The quarter played out against the most complicated market environment I have ever experienced. We were not able to overcome the effects of the growing strength of the dollar and the COVID lockdowns in China.

SendTech and Presort turned in solid results in a very challenging environment, and those businesses in the aggregate grew revenue for the quarter. Equipment sales in SendTech were strong, and our loan originations in Global Financial Services showed solid improvement. And importantly, finance receivables stabilized in the quarter.

The overall performance of these businesses bode well for the future. While trends are rarely a straight line, Presort and SendTech are well positioned going forward. Growth in SendTech and Presort was unthinkable a few short years ago and is the result of smart investments, focus and solid execution. Often, there are concerns when companies broaden the focus away from their historic core business that they loose focus on the core. The trajectory of SendTech and Presort is solid evidence to the contrary for our company. There are a few examples of companies overcoming secular decline but there are precious few companies that have been able to reinvent their core, and we have done it, and we continue to do it.

Results in Global Ecommerce were mixed. But the big picture view of activity in the quarter continues to support our long-term thesis for this business. In particular, our long-term model is centered around growth in the domestic parcel market and continuous operational improvement to expand profitability.

In the second quarter, our service levels were strong. This enabled us to attract and win new customers. Importantly, our pipeline is excellent for the second half of the year. Our gross margin per parcel and the overall margin of the domestic delivery business showed substantial improvement year-over-year. Our significant operational improvements bode well for future profitability when we were able to achieve higher volumes, which we should achieve based on our improved operational capabilities and as macroeconomic conditions improve.

That being said, current economic conditions present some short-term pressure on the business with a moderation in volume growth, longer sales and customer integration cycles.

Also, the COVID lockdown in China, coupled with pricing pressures, created headwinds in our Domestic Parcel business. China inbound volume is part of our Domestic Parcel business, because we don't manage any Cross-Border logistics for it. Despite the dramatic drop in China inbound business, our Domestic Parcel business grew 6% for the quarter. While it's hard to make predictions regarding COVID in China, for the moment, the country seems to be moving in the right direction.

In our Cross-Border business, we saw a negative impact in outbound United States demand due to the rapidly strengthening United States dollar. We expect that the dollar will remain strong versus the euro for a while, creating a headwind for our Cross-Border business.

To sum up, the team is making good progress finding new opportunities and operational improvements to manage costs, but we are very aware of the short-term challenges in the Cross-Border businesses.

This is probably a good segue to address our decision to sell Borderfree to Global-E. First, the transaction allows us to focus on what we do best, the logistics aspect of our Cross-Border business. Second, the deal also opens up a set of Cross-Border logistics opportunities with Global-E that we see as meaningful. Third and more broadly, the transaction shows how even as we are confident in our long-term thesis on our e-commerce business, we make adjustments to specific aspects of the strategy as conditions dictate. And finally, it is also a clear affirmation that we will take every opportunity available to the company to unlock value for our shareholders across our portfolio just as we have consistently done for the last decade.

Our first priority for capital allocation continues to be invested in our business and opportunities for profitable growth as we believe that smart investments in the business will create the most enduring value. Next priority has been debt reduction to maintain appropriate levels of financial average, which we have. We reduced debt by $1 billion over the past 4 years.

As we enter a more uncertain economic environment, we intend to use the Borderfree proceeds, at least initially, to operate with a stronger liquidity profile, knowing that approach offers incremental strategic and financial flexibility as well. Challenging macroeconomic environments often provide company's unique business opportunities. That being said, we look at all investments on a risk-adjusted basis, and as the macro environment is more uncertain, the threshold for those investments goes up. We will be prudent in how and when we commit capital.

Let me conclude this very important topic by emphasizing that capital allocation, including return of cash to shareholders, is a continual topic with the Board and all options are on the table.

The sale of Borderfree is also relevant to a topic that I get asked about from some of our investors. Specifically, the sum are the parts of Pitney Bowes and whether it would be better to separate the company into independent entities. Just like capital allocation, this is a regular topic with the Board and something they evaluate on an ongoing basis.

We believe that the portfolio changes we have made have created a strategically coherent portfolio with meaningful synergies across the business. There is also a logical consistency in the way we help clients simplify and manage their mailing and shipping needs. Nevertheless, the Board is always open to different ways to create value for our shareholders. Importantly, our view that the current construction and strategic intent of the company is the right one for now, is not just our internal belief.

We have tested the market in meaningful ways. The consistent conclusion from those dialogues is that the best way to maximize shareholder value is to execute against the existing plan. In addition to these assessments with active market participants, the Board recently commissioned a leading consulting firm to evaluate our approach. They, too, concluded that maximizing shareholder value will be driven by further development of GEC within the broader Pitney Bowes enterprise.

From my vantage point, I think the most important takeaway from those conversations is an affirmation of the current overall strategy, and it is crucial for us to develop positive and consistent profit margins in our GEC business to achieve higher valuations. Of course, the Board will continue to revisit this topic on a regular basis and will explore any opportunity that maximizes long-term value.

To conclude, the second quarter was not what we had hoped for, and the macroeconomic environment going forward is uncertain at best. That being said, as I look underneath the hood of the business, my confidence in our future continues to be very high.

I will now let Ana take you through the details of the quarter.

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**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, EPS, and cash flow on an adjusted basis. Let's start with a high-level review of the year-over-year comparison of our financial statement data points, followed by a discussion of our segment results, the balance sheet, cash flow and our outlook.

Total revenue for the quarter was $871 million, which is down 2%. Gross margin for the company was $274 million compared to $301 million for the same period last year, a 9% decrease. As a percentage of total revenues, gross margin decreased 200 basis points to 31.4%. Total EBITDA was $82 million, down from $96 million. EBIT was $39 million, down from $56 million. Interest expense was $34 million, down from $36 million in the prior year, driven primarily by reductions in total debt outstanding.

Our tax rate returned to more normal levels and was 26% in the quarter. Adjusted EPS was $0.02 compared to $0.11. Last year's $0.11 figure included tax benefits and insurance proceeds that totaled $0.04. At the end of the quarter, weighted average diluted shares outstanding were approximately 177 million.

Turning to cash flow. GAAP cash from operations was $35 million for the quarter compared to $79 million in the second quarter 2021. Free cash flow was $6 million in the quarter compared to $87 million in prior year. Approximately 75% of the $81 million delta was driven by reductions in client deposits, a result of timing difference in postage spend versus account replenishment. Free cash flow was also affected by lower net income, the timing of insurance premium payments and partially offset by a decrease in capital spending.

Capital expenditures for the quarter were $32 million, down from $40 million in prior year. For the first half, capital expenditures were $64 million compared to $84 million in 2021. As I shared in our last call, capital expenditures overall are expected to be lower than last year. During the quarter, we paid $9 million in dividends and made $5 million in restructuring payments.

Looking at our balance sheet. Cash and short-term investments were approximately $582 million at quarter end, not including the cash from the sale of Borderfree, which closed on July 1. Of the $582 million total, almost 40% is at Pitney Bowes bank. Approximately 25% is held internationally, and the balance is in our domestic accounts, mainly to cover usual and customary working capital needs. As Marc mentioned, the proceeds from Borderfree will augment our financial flexibility should the macro environment become even more challenging. Also, our $500 million revolver remains undrawn.

Total debt was $2.2 billion compared to $2.3 billion at the year-end 2021. Adjusted for operating leases and cash, operating company debt was $593 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 to our Investor Relations website. Let me start with Presort. Presort revenues were $139 million in the quarter, which is a 3% improvement from last year. New customer additions and increased revenue per piece more than offset volume declines. Total sortation volumes of 3.8 billion pieces was down 8% compared to prior year. EBIT for the quarter was $13 million compared to $16 million a year ago. EBIT margin was 9% compared to 12% in second quarter 2021. The decline in margins was driven largely by increased labor and transportation costs, including the change in our allocation methodology that we discussed last quarter. Additionally, our fuel cost doubled year-over-year.

Looking to the second half of the year, we are optimistic that we can return to mid-teen EBIT margin levels driven by two key factors. First, adjustments in the USPS workshare discount program will enable us to recover cost we are already experiencing. And second, productivity gains from our multi-phased sorter refresh will help with labor costs. We are also increasing the number of in-source transportation lanes by utilizing excess capacity, which we believe will lower the cost of transportation.

The bottom line is, we continue to feel very good about second half growth prospects for Presort, driven by better revenue per piece, an increased mix of marketing mail and the above referenced cost measures.

Moving to SendTech. SendTech reported revenues of $339 million in the quarter, a slight increase over prior year, which, as Marc noted, is a significant accomplishment for a business that has natural headwinds. The revenue stability was driven by 7% higher equipment sales and 2% increase in supplies as well as better business services revenue. Shipping related revenue, which is now 12% of segment revenues, improved 21% versus prior year. Finance revenue was down 7%, largely as a result of a revenue mix shift resulting from equipment upgrades.

At present, roughly 40% of our SendTech client base has undergone an equipment refresh, and we expect the balance to upgrade over the next few years to ensure compliance with USPS security requirements, which we think bodes well for equipment sales going forward.

EBIT was $96 million compared to $107 million and EBIT margin was 28%, down 270 basis points from second quarter 2021. The changing revenue mix, along with inflationary pressures in component costs were the primary causes for the margin decline. For financial services, we are very encouraged by stability in net finance receivables, which bodes well for future results. and our continued improvement in portfolio quality. Specifically, 30-day delinquencies were down 40% from prior year and flat to last quarter. As of quarter end, net finance assets were $1.15 billion compared to $1.14 billion for prior year.

Let me shift to Global Ecommerce. Within GEC, revenue in the quarter decreased 5% to $394 million. Gross margin in the quarter was $38 million compared to $45 million a year ago. Segment EBITDA for the quarter was negative $7 million compared to positive $8 million in the second quarter of 2021. Year-to-date EBITDA is breakeven. EBIT For Global Ecommerce was a loss of $29 million compared to a loss of $11 million a year ago. EBIT margin was negative 7% compared to negative 3% in the prior year. While the headline numbers are obviously lower, we are seeing two very distinct undercurrents inside our Global Ecommerce segment, essentially divided by operations with a domestic component versus operations with an international component.

I'll start with Cross-Border, which is where the primary challenges exist in Global Ecommerce. Our Cross-Border business is largely focused on helping our clients move parcels originating in the U.S. to international destinations. It is roughly 25% of segment revenues.

Cross-Border revenues were down mid-teens in the quarter, similar to first quarter. Weaker overall economic conditions, especially in Europe, are dampening e-commerce spending and with a strong U.S. dollar, products originating in the U.S. and sold into international markets, which describes our Cross-Border client base are simply less competitive on price.

Additionally, Borderfree, which has been a part of our Cross-Border operations and was sold on July 1, represented roughly 1/3 of the revenue decline in Cross-Border revenues in the quarter. Bottom line is that macro conditions are negatively impacting Global Ecommerce international operations.

Let's switch to Domestic Parcels, which is over half of segment revenues, where the news is more encouraging. First, we continue to believe the Domestic Parcel market is our biggest opportunity, with a large and growing addressable market. It has been a significant focus of our business investment over the last several years. The headline is, we're making very good progress growing revenue and profit for Domestic Parcels.

While total volumes in the quarter decreased from 44 million to 39 million, if you exclude parcels that originate in China and are processed by our Domestic Parcel network, volumes grew 4%. Said another way, parcel volumes from North American clients grew, and we believe we outperformed the domestic market based on a range of market data. The decline in parcels originating in China, and again, processed by our Domestic Parcel network was roughly $6 million in the quarter and was driven largely by the well-reported lockdowns that country experienced in the second quarter. Despite the downturn in China volumes, Domestic Parcel revenue increased mid-single digits as a result of much better revenue per parcel.

In terms of network efficiency, we continue to make excellent progress in generating better gross margin per parcel. Year-to-date, we have increased per parcel margin by $0.35 compared to the first half of 2021. When one multiplies this figure across hundreds of millions of parcels flowing through our network, the improvement in efficiency turns into meaningful dollars.

Let me talk about service levels, another contributor to our volume and revenue growth. The investments we have made in technology, systems and people have allowed us to create a fully integrated, automated national network that provides us with more predictable service and costs. In the second quarter, that work has culminated in a dramatic improvement in on-time performance, and we are now consistently delivering market competitive services. Better on-time performance has helped drive substantial client wins.

We completed 112 new signings in second quarter, up from 56 in the first quarter of 2022. For example, we recently signed an agreement with Quiet Platforms, which is the logistics operation owned by American Eagle Outfitters. We expect the arrangement to begin generating meaningful volumes into our network beginning in the fourth quarter. These new signings will help provide momentum and offset the headwinds that are appearing in the domestic e-commerce market.

Third-party e-commerce data for the quarter indicates that volumes are down mid-single digits. But in the context of inflationary trends, dollars spent are flat to slightly higher.

Let me now complete the financial discussion on Global Ecommerce. We experienced higher operating expenses in the quarter, including an increase in research and development as well as an accounts receivable write-off from a client bankruptcy. Those factors also contributed to the overall decline in segment EBIT. In the end, our increases in Domestic Parcel revenue and profit were more than offset by lower Cross-Border performance.

Recently, we have received inquiries about the United States Postal Service reseller program. Let's start with some background. The current USPS reseller framework was established in 1992 with a handful of designated firms that are essentially outsourced postal service sales represent. They recruit small- and medium-sized shippers to drive USPS parcel volumes. Recent trade press articles have suggested that the USPS will discontinue the program.

What does this mean from the Pitney Bowes perspective? We believe the USPS is looking to adjust how it works with and compensates third parties that drive volume to its network. While we are not a reseller, we have been 1 of those parties driving USPS volumes, and we believe strongly we can do so going forward with our ecosystem relationships and state-of-the-art technology.

For digital offerings within our SendTech business, we believe our new arrangements with the USPS will enable us to maintain the same economics we have now. Also, our physical network inside of Global Ecommerce, both Domestic and Cross-Border, are not related to the reseller program at all. For digital offerings that reside inside of Global Ecommerce, there is work to do in assessing the potential positive or negative effects, and how our services and technology will fit into the new USPS reseller landscape. We do believe that the capabilities we have built over the years support substantial volumes in the USPS network and integrate well with USPS' strategic intent.

That combination should enable us to create attractive economics for Pitney Bowes going forward and replace the limited, but nonzero potential decline in our gross margin should the program be discontinued.

Lastly, let me provide some perspective on the outlook for the full year. Based on uncertain macroeconomic conditions, first half results and the sale of Borderfree, we are updating our full year outlook as follows: the company expects full year revenue on a constant currency to range from a low-single-digit percentage decline to a low-single-digit percentage increase. The company expects full year EBIT to range from a high-single-digit percentage decline to a mid-single-digit percentage increase. We also expect to generate solid adjusted free cash flow for full year 2022, though at a lower level than last year.

The primary differences are driven by lower client deposits, strengthening of finance receivables, shifts in working capital against sizable benefits in 2021 and partially offset by a reduction in capital spending. For the third quarter, we expect overall financial results to be roughly comparable to second quarter 2022.

As Marc and I both shared, second quarter numbers were disappointing. Nonetheless, there is more progress happening inside the organization than what the financials illustrated in the second quarter, especially in Global Ecommerce. We believe the operational detail we provided adds perspective on that front.

Looking ahead, we expect solid results in Presort and SendTech in the second half. We are working to drive volumes into Global Ecommerce Domestic Parcel operations, which will leverage the scale we have built and help generate the profitability everyone expects. And while our adjusted free cash flow expectations are lower, first half EBITDA, less CapEx, interest expense and taxes represents a solid improvement versus prior year. We remain committed to being a consistent cash flow producer with appropriate amounts of liquidity as we all tackle a more challenging macro environment.

We look forward to your questions. Operator, please open the queue. Thank you.

## QUESTIONS AND ANSWERS

**Operator**

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

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

Marc, just on the Global Ecommerce business. Obviously, you laid out some headwinds out of your control, but that might persist for a little time, I guess, difficult to say for how long. But are you making any changes to the business as a result? Or is there enough other growth in the business that you'll continue investing?

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

Great question, and you're right, it is hard to predict how long these headwinds will occur, but our working assumptions are going to last for a while. So I don't think this is a short-term phenomenon that's going to ride itself in the third quarter.

To your question, we are making changes. First of all, every aspect of cost in our Cross-Border business is under review. We are making investments, but we're making the investments principally in U.S. to Canada lanes, where we think we're a little bit more insulated from the currency disruptions, and candidly, we've got enough density in our volumes that we've got critical mass and we've got comparative advantage versus others.

So we're paring back the investments overall in places where we think are going to be facing some headwinds, and we're doubling down in some places where we think we've got some natural advantages that are less susceptible. And I would say, in some ways, while -- I wouldn't say that Borderfree was a response to the currency dynamics. It certainly speaks to that overall thesis.

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

And then just a follow-up, Marc. You talked a little bit about it at the beginning of the call that you had asked a consulting firm to kind of look at the business, what makes sense. And I'm wondering the conclusion that they came to kind of keeping the company together, was it because of dissynergies? Was it because of other issues? Just -- I know it's -- I'm sure a long report, but anything you could summarize as to why -- what conclusions were?

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

Sure. Listen, I think there was a couple of findings. First of all, it affirmed the overall thesis in the strategy. The second thing I'd say is while there are strategies -- while there were synergies, rather, that are meaningful across the 2 or 3 businesses. That wasn't this positive factor. The most important factor was, for GEC, in particular, that business needed to be further along in terms of volume and profitability and ability to kind of stand on its own 2 feet. So that was kind of the principal findings.

**Operator**

Our next question comes from the line of Ananda Baruah, Loop Capital.

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

And tricky environment out there for everybody no doubt about it. I guess just kind of two, if I could. SendTech, Presort has held up well. Are you hearing sort of anything for your customers in terms of -- with regards to macro increasing trepidation, any context there? Or is it like -- is it just sort of very cleanly steady as she goes right now, even in your contextual conversations with them?

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

I would say across the board we're hearing consistently from clients that this is a very tricky environment. And some are seeing near-term signs of recession than others. But across our entire portfolio, every customer we're talking to, and candidly, every CEO I'm talking to sees a challenging environment. I would just say SendTech and Presort and candidly, even our Domestic Parcels business in GEC operated pretty well in pretty difficult market conditions.

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

Yes. So the second question is actually on sort of the Domestic Global Ecommerce. So do you -- Marc, do you guys have the sense that there has been any impact, or any discernable impact relative to your expectations for macro there yet? The metrics were solid, but did you expect them or could they have been stronger? Or is there no discernible real impact yet from macro on, call it, kind of domestic North America GEC?

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

There absolutely is impact. So I mean, what's happening is we're pretty successful in the market right now signing up new customers. So Ana talked about the 100 wins on top of the 40 or 50 wins that we had in the first quarter. So we take that as affirmation that we've got a value prop that hunts.

On the other side of it, we've got customers -- existing customers whose business is under real stress. So we're kind of in this -- we're adding a lot out the front door and for some of our existing customers, their business and their volumes, therefore, are being hurt. And then between what I would say sales cycles and integration cycles and I said this my comments are lengthy. So if you look at the 102 customers and Ana talked about a large 1 in particular that we hope to come online in the fourth quarter, that's been a slow integration.

So it's -- I would say it's a little bit like running in quick sand. We're moving forward, which I think is distinctive versus others in the industry. but it's certainly a more challenging environment. And candidly, the bankruptcy that Ana talked about as well is kind of another sign of distress. So it's not that we're not seeing it. It's just that Domestic Parcel business, in particular, I think we're operating in a difficult environment pretty well, and best we can see versus competition, at least holding our own, if not more.

But the reason I like this dynamic is eventually the customers that are having distress right now, their business is going to come back. So you get the benefit of their business coming back and then, ultimately, all of these new wins coming online. So it is, for sure, in the short term, a little bit frustrating, particularly given all the good work the team has done on service levels and efficiency of the network and all that kind of stuff. But that's why we're talking about the internal fundamentals as you kind of look under cover, we think are pretty solid.

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

That's really helpful context. Appreciate it.

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

It's a complicated quarter for us to sort through and explain. I know it's a complicated quarter for you also. It's the densest communication we've had since I've been here.

**Operator**

Our next question comes from the line of Matt Swope, Baird.

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

You guys gave some pretty good volume data on Presort and Global Ecommerce. Is there a similar kind of KPI for SendTech? Like, Ana, you told us that the Presort pieces were down 8% year-over-year. Is there any kind of volume measure or way to think about SendTech in terms of those headwinds the same way?

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

The short answer is it's a slightly different business model. So if you look at how Presort makes money and to a degree how GEC makes money, it's on throughput.

As you look at the SendTech business model, it's kind of around the equipment sales, the financing revenues, the services. So we do have throughput measures for shipping, which then can kind of get you through, but it is fundamentally a different model and subscription is also important and becoming more important. So we'll unpack that a little bit for you.

But I would say, as I look at that business -- and by the way, the subscriptions point is an important one because that, to a degree, is trading out short-term equipment revenue for longer-term subscriptions. So it's a good thing and it's kind of where we want the business to go, and we've been going there slowly over the last several years, but it certainly has a different profile in terms of how you recognize the revenue. So we'll get you a little more there.

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

That's very helpful, Marc. Could you just elaborate a little bit on that last piece you said as the sort of lumpier equipment revenue was replaced by subscriptions. Are people just effectively renting that from you so that smooth things, and you get a longer commitment from them? Or how does that change that dynamic?

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

It's, in essence, no different than any other Software-as-a-Service type company. So if you think about that transition that Software-as-a-Service companies go through, they're trading in-period short-term revenue for a longer revenue stream, and that longer revenue stream is different contractual agreements with it. But as more of our offerings go online, that becomes a more prominent aspect of our financials.

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

I see. That's great. And then if I could just change gears sort of to the cash and liquidity commentary. Could you comment on whether you guys have sort of a minimum cash number? I know you've been asked this before, but especially given that you have this undrawn $500 million revolver, now you have these asset sale proceeds that have come in. You're still paying the dividend, which is small, I know, but you have your bonds that have traded down a lot, and you might have some opportunity to buy back bonds in the open market, too, at very attractive levels. Could you just sort of put all that together into how you think about cash and liquidity and opportunity?

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

Sure. This is Ana. So in terms of cash and liquidity, as I mentioned in my remarks here, we think of it in three big pieces, right? So when you take our total cash, we have about 40% of that at the bank. We have about 25% in international. And that residual that we have in the U.S., and I'll just speak to the U.S. cash, the way we think about it is we like to have about a week of outflows, not net of the inflows, just to have that in cash on hand for the U.S. needs. And that translates, when you do that math to -- around that $200 million level. Of course, as our organization moves and needs change, that could change. But I hope that gives you a little bit of a perspective of how we think of the cash.

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

No, that's definitely helpful. And so then to the other pieces. So you get this now you get these proceeds in from Borderfree and you were talking about sort of just supplementing your liquidity. Would you consider using those to more actively reduce debt or even to get more aggressive, would you ever draw on the revolver to buy back bonds at the significant discount that's available right now?

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

So listen, as I said in my remarks, from a Board perspective, as we think about capital allocation, all options are continually evaluated and all options are continually on the table. So it's -- we'd like to see a little bit more data and we've got a little bit more analysis to before we kind of conclude what's going forward.

But I think what you should assume is that while all options are on the table, we're going to want to remain some degree of flexibility, both strategically and financially. For the moment, we like to have a stronger liquidity profile. And as I said in my comments, these moments in time often present opportunities. So for example, there's a couple of smaller acquisitions in Presort that probably weren't available to us a couple of quarters ago that all of a sudden now are available at pretty good prices, and those things are accretive. So it's hard to make placard statements beyond, I can assure all of our investors and everyone on the call that the Board looks at this all the time and all the different options. Whether or not we would draw on the revolver to buy back debt, I don't know. Probably not, but again, we're very open-minded about how we think about this.

**Operator**

Next question is from Anthony Lebiedzinski, Sidoti & Company.

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

So just looking at equipment sales, so 2 quarters in a row that, that increased here and the second quarter revenue from that segment was roughly in line with the first quarter. So was there anything specific that drove that as far as the equipment sales increase? And just wondering how we should think about sustainability for equipment sales?

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

If I said brilliant execution, could I leave it at that? Listen, I think it's a great question. We think of that all the time. So first of all, I do think the team executed quite well. So I think I wouldn't drive through that. We are in a very good product cycle. And we expect that product cycle to last, not just for the next couple of quarters, but candidly for the next couple of years.

And then underneath that, as Ana said in her remarks, the USPS has put out new security requirements for the devices, which customers need to comply with. So that creates kind of a natural tailwind. I think, honestly, we're 40% or 50% of the way through refreshing that technology base. So we got some good tailwinds and some good momentum for the next extended period of time in that business. So we like how the team is executing. I really like the product cycles. And then we've got some tailwinds with some USPS changes and what they're requiring for security.

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

Got it. That's very helpful color. And then in terms of the Global Ecommerce segment, so as you enter the back half of the year, and more specifically, the fourth quarter, just curious to get your thoughts as for as how does the -- I know it's still a tricky environment, obviously. But as far as seasonality, I mean, is there any notable difference in terms of the Cross-Border volumes versus domestic volumes in the back half of the year versus the quarter that you just reported?

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

So listen, I'm answering this question with a high degree of humility based on the current environment and candidly. We don't have great visibility, nor do our customers have great visibility in the business. I do think that the Cross-Border headwinds will last through the balance of the year. So the Fed increased interest rates by 75 basis points yesterday, Europe increased their interest rates by 50 basis points, but there's still a pretty big disparity between where the respective geographies are on interest rates, which drives the disparity in exchange rates. So I think that's going to continue.

I was in Europe a couple of weeks ago, and they're very concerned as they get into the fall about food shortages and fuel shortages. So I suspect that the monetary officials in Europe will be -- continue to be pretty cautious about raising interest rates. Starting with the Cross-Border dynamics are in for a couple of tough quarters until things begin to even out a little bit.

On the domestic side, it's a little bit harder to tell. I mean, our current plans are that there will be a peak this year in terms of volumes. That's kind of a natural phenomenon. We assume that buying behaviors will be kind of as we expect, and customers as the supply chain become more predictable, we'll believe that online is a viable way to get packages delivered on time. And then kind of wildcard is pricing. So historically, there's peak pricing that happens in the fourth quarter. That's kind of an industry phenomenon. We're planning on a little bit of that. But there's a lot more variables in the domestic business that are a little bit harder to predict. But we are planning for some seasonality that we've seen historically in some pricing power as well.

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

Got it. Okay. And lastly, Ana, you mentioned that there was a write-off from a banker client in the GEC. Just wondering about the magnitude of that, how should we think about that?

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

Yes, it was around $2.5 million.

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

So it's a really good question, and it's one of the things we're looking at carefully, and I know the banks are as well. What is the overall payment profile that we're in. So in the second quarter, I mean, DSO improved a lot. We looked at collections, they were pretty good. So there's nothing in our -- in our dashboard or that what we're seeing that would tell you that our customers are under unique stress.

This one situation that Ana referenced was unfortunate. And we're okay and let them get a little bit more out in front of us than we should have. But underneath that the fundamentals are still pretty good in terms of how customers are paying us, but we're paying close attention.

**Operator**

(Operator Instructions) Our next question comes from the line of Ananda Baruah, Loop Capital.

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

Just wanted to just ask a quick context on the USPS reseller framework, I guess, refactoring that they're doing. What's the timeline, Marc, that you guys are looking at for any sort of, I guess, determination or visibility if it's getting lighter there?

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

Hard to know precisely. The reseller agreements timeout at the end of the third quarter. I want to just back up because I think it's important here to have a little bit of perspective of what the postal service, at least in my judgment, is trying to do, is trying to align their incentive systems with where value is being created in the ecosystem.

I wholeheartedly and fully applaud that. And over time, and it's hard to be precise. That's going to advantage Pitney Bowes, I believe, because we're all about creating value to the postal service, and we've been doing it for 102 years. So as it relates to the reseller agreement, particularly, as Ana said, we know we're not a reseller. We do participate in some of the downstream economics of those resellers. We've mitigated all that in SendTech. GEC, it's a little bit harder to know, but we're working pretty hard to land that plane sooner versus later.

And there's multiple different kinds of options. One is a short-term accommodation of the postal service. Second is a longer term type of agreement or some other way to replace the economics of the marketplace. So we're pursuing all of those alternatives. But while it's, I would say, short term and settling, even though it's not that much money, I do like the philosophy because I think it plays well to our strengths.

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

Is it possible that you come out, could the amount of money you make from these situations could increase? I mean if they take a fresh look at what is value being created and they say, I typically want to share the sort of the (inaudible) to you?

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

The answer is absolutely yes.

**Operator**

And at this time, there are no more questions. So I would like to turn the call back to Mr. Lautenbach for closing remarks.

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

Thanks. Listen, as we talked about and you all know, I mean this is kind of a complicated environment. I said it in my remarks. I said it again, I think every CEO is saying it. And there's a lot of different comps that are running through the market, lots of different comps that are running through the business. But you can simplify our business at the moment. SendTech and Presort are operating pretty darn well in a pretty complicated environment. And I think that's -- they're well situated to continue to do that in the future. They've got good opportunities in terms of cost and they've got good opportunities in terms of price.

Global Ecommerce, again, our thesis -- if you look at our long-term thesis, it's all about improvement in Domestic Parcels. And while I would say that the Cross-Border business and the expedite business are important legs of the stool, the whole value appreciation story for Global Ecommerce and by extension, Pitney Bowes is around Domestic Parcels. And the fundamentals of Domestic Parcels is good. We are winning in the marketplace, revenue grew, parcels grew ex-China delivery. And one of the things that Ana said, and I'll just kind of highlight it is, $0.35 per parcel improvement in gross margin, $0.35 across 200 million parcels or 300 million parcels is $70 million to $100 million of profit improvement going forward.

So it's like when you operate in cents, says $0.35, that's not that big of a deal. When you really step back and say it's across 200 million parcels or 300 million parcels, it's a really big deal. And it is just symptomatic of the fundamentals of that business continuing to increase, whether it be bidding in the marketplace, service levels, customer satisfaction, how well the network is operating, how efficient the network is operating. So the Cross-Border stuff is momentarily inconvenient, but I've been in this Cross-Border business long enough now for 10 years that I know that comes and goes. It will, at some point, normalize again and probably flip the other way. So I don't mean to be overly polyenic. I think it's a difficult environment, and I think we're pretty sober about what we're dealing with in the next couple of quarters. But the underlying fundamentals of the entire business and the portfolio are pretty well positioned.

So we'll talk more. I'm sure you're going to have more questions as you unpack our comments this morning. We're all around to answer investor's questions and questions from the analysts, and we'll look forward to seeing you soon. Thanks for your time this morning.

**Operator**

Ladies and gentlemen, that concludes our conference today. Thank you for your participation and for using AT&T conferencing service. You may now disconnect.