REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2023 Pitney Bowes Inc Earnings Call

EVENT DATE/TIME: MAY 04, 2023 / 12:00PM GMT

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Ana Maria Chadwick *Pitney Bowes Inc. - Executive VP & CFO*
Marc B. Lautenbach *Pitney Bowes Inc. - President, CEO & Director*
Ned P. Zachar *Pitney Bowes Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

Ananda Prosad Baruah *Loop Capital Markets LLC, Research Division - MD*
Kartik Mehta *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*
Matthew Warren Swope *Robert W. Baird & Co. Incorporated, Research Division - MD and High Yield Desk Analyst*
Stephan Guillaume *Sidoti & Company, LLC*

PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes' First Quarter 2023 Earnings Conference Call. Today's call is also being recorded. I would now like to introduce participants on today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Ms. Ana Maria Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Ned Zachar, Vice President, Investor Relations. Mr. Zachar will now begin the call with the 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. I'd like to welcome everyone to the call this morning. We very much appreciate your interest and participation.

Part of my duties include covering the 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 2022 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 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 and a spreadsheet with historical segment information on our IR website that summarizes many of the points we will discuss during today's call. Also, you are likely aware that Hestia Capital has nominated several director candidates in advance of our upcoming annual meeting. Please note that today's call is about our first quarter earnings, and we will not be answering questions related to those nominations on this call.

Our format today is as follows: 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, and good morning, everyone. I appreciate everyone joining our call this morning. Trends from the fourth quarter continued into the new year. Specifically, Domestic Parcel continued to grow, significantly outpacing a soft market while Cross-Border continued to face meaningful headwinds and our Presort and SendTech segments provided overall ballast to the enterprise with steady profits on a year-to-year basis.

Let me unpack each of these dynamics. Our Presort segment performed well in a fairly difficult market. Our First Class Mail and Marketing Mail volumes declined in the market. Presort drove solid productivity. The net revenue that was down slightly and profit that

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

was up significantly. SendTech performed consistent with our expectations and delivered strong margins and adjusted segment EBIT performance. Our shipping offerings in SendTech continue to be very well accepted in the market. And you can see on the horizon, the absolute gains in shipping revenue outpacing the declines in mail revenues driven by secular trends. Both Presort and SendTech are well positioned for the year. And in aggregate, we expect these businesses to grow adjusted segment EBIT for the calendar year.

In Global E-commerce, where we provide 3 distinct services, including Domestic Parcel, Cross-Border and Digital, there were 3 very different dynamics in each business. In Domestic Parcel where opportunity to create long-term value is centered, we made good progress. Our Domestic Parcel volume grew 22% in a market which was flat and is well ahead of other industry players who are seeing softness. This increase was enabled by a substantive year-to-year progress on our client service levels, which are now hovering around industry best-in-class. The profile of the volume in our domestic network continues to be lighter weight, standard delivery. In addition, we are seeing softer return volumes as retailers reduce incentives that drive returns, which carry higher revenue per parcel. However, we are seeing substantial unit cost improvements as our volume builds, which helped our Domestic Parcel gross margin performance.

I should also point out that 80% of the current pipeline across GEC is comprised of higher-margin services, including Cross-Border delivery, returns, digital and attractive standard delivery parcels. In digital, we essentially traded with the market but have some substantive potential opportunities, which we're excited about.

Finally, for GEC, Cross-Border continued to be under pressure as we battled macroeconomic headwinds and the change in 2 client relationships with one choosing to in-source much of that business and the other change in how it manages it, which has resulted in lower volumes.

Ana will further unpack and isolate these very different dynamics. While the net of these items was disappointing, we believe the improvement in Domestic Parcel bodes well for the realization of our long-term aspirations. Again, the preponderance of our value creation opportunity resides in Domestic Parcel, which has a large addressable market with what we believe to be very good growth opportunities.

Finally, as we've said in the past, we continue to be open to different alternatives as we go forward with GEC, and we're continually evaluating different paths to unlock value. We are augmenting our cost reduction efforts, which we originally announced in late 2022 to take out spend. There are 3 very different motivations behind these actions. The first is our ongoing efforts to become more efficient. As I've said before, the work of becoming more efficient is never done.

Next, we are resetting our cost structure in Global E-commerce to reflect the realities of the Cross-Border market, where the headwinds are not likely to come anytime soon. In addition, the overall performance of our Domestic Parcel network has revealed the opportunity to do more with less. Said another way, we believe the network we have built can deliver the volumes contemplated in our long-term strategic plan with fewer sites and at reduced operating expense levels. This is due to the terrific work the team has done designing and running the Domestic Parcel network. To be very clear, we do not anticipate that our domestic network will require meaningful incremental investment, and none of these adjustments affect our ability to achieve our long-term aspirations.

I'll now turn the floor over to Ana to walk through the operating and financial details of the quarter.

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

Thank you, Marc, and good morning, everyone. Before I begin my financial review, I'll note that the year-over-year revenue information will be discussed on a comparable basis, which adjusts for the impact of currency, the disposition of Borderfree and a revenue presentation change for our digital services, which we discussed in detail last quarter. This revenue presentation change primarily affects Global E-commerce revenue and, to a lesser extent, SendTech. The change does not affect the dollar profitability of our activities. Also, please note that we are updating the name of our segment profit measure to adjusted segment EBIT. There is no change in how we have historically calculated these figures. Also, unless otherwise noted, I will speak to other items such as EBIT, EBITDA and EPS on an adjusted basis.

The following is a high-level review of our year-over-year comparison for our first quarter results. Total revenue for the quarter was $835

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

million, which is a decrease of 4% compared to the prior year first quarter. Gross profit for the company was $278 million compared to $306 million for the same period last year, a 9% decrease. In percentage terms, gross margin was stable at 33% compared to last year. EBITDA was $73 million compared to $95 million a year ago. EBIT was $33 million compared to $53 million in prior year. Interest expense was $37 million, up from last year's $34 million level. Corporate expenses for the quarter were $56 million, down $1 million from a year ago. Adjusted earnings per share was a $0.01 loss compared to $0.08 in the prior year.

Turning to cash flow. GAAP cash from operating activities was a use of $40 million in the quarter compared to a source of $11 million in 2021. Working capital timing differences, which we expect to normalize during the balance of 2023, was the primary reason for the variance versus last year. Free cash flow was negative $61 million compared to negative $17 million last year. Beginning with this quarter, we have updated our free cash flow definition to exclude changes in deposits at the Pitney Bowes Bank. Many of our clients regularly deposit money at the bank, which is a convenient payment mechanism for ongoing postage spend. Fluctuations in these deposits are based on the cash needs of our clients and not within our control, which is why we're removing it from how we define free cash flow. Our new definition, GAAP cash from operations, less CapEx, less restructuring and onetime items is in line with many of our industry peers. CapEx for the quarter was $29 million, down from $33 million in prior year. During the quarter, we paid $9 million in dividends and made $5 million in restructuring payments.

Let's turn to a discussion of our 3 business segments. Segment information is summarized in our press release, slide presentation and quarterly spreadsheet, all of which were posted on our Investor Relations website.

I'll start with SendTech. SendTech reported revenues of $327 million in the quarter, which was down 4% compared to prior year. Financing, equipment, rentals and supplies revenues declined low to mid-single digit, which were partially offset by continued growth in our shipping-related revenues.

SendTech's adjusted segment EBIT was $97 million compared to $105 million in the prior year. Margin for the quarter was stable at 30%. We are optimistic on the top and bottom line progress for SendTech for several reasons. Shipping related revenue grew 8% versus prior year, and now comprises 11% of segment revenues. Recurring SaaS subscription revenues were 24% higher. We refreshed our top-of-the-line mailing product, SendPro Mail Center, which is getting a terrific reception from our clients. Our midrange SendPro C Series has seen the highest demand in over 2 years.

In addition, our innovation efforts in SendTech remain robust. We recently launched Pitney Ship Cube and continue to add more features to our shipping 360 platform. Specifically, we added more data importing and analytic capabilities, more international origin shipping and more multifactor authentication. I'll spend a moment on the performance of our financial services inside of SendTech. Like last quarter, finance receivables were up 3% versus prior year. And we continue to see healthy payment trends across our financing portfolio. 30-day delinquencies were 1.5%, down 30 basis points year-over-year. As of the end of the quarter, the finance portfolio totaled $1.2 billion.

In summary, SendTech continued its solid performance and made strides in shipping, new products and financial services, which are positive indicators for the overall health of the business.

Let's turn to Presort, which had a very solid quarter. Presort revenues were $159 million in the quarter, which is a 1% decline from last year. Lower volumes from existing customers were essentially offset by better revenue per piece and new customer additions. Total sortation volume of $4 billion was down 9% compared to prior year. Adjusted segment EBIT for the quarter was $27 million, up 37% versus last year. Adjusted segment EBIT margin was 17%, which is nearly 500 basis points better than prior year. Margin improvement was driven by 3 factors: first, better revenue per piece; second, investments in new sorters, which is creating substantial improvements in labor productivity; and third, lower unit transportation costs.

Let's shift to Global E-commerce, where considerable headwinds continue to affect our financial performance. Global E-commerce revenue in the quarter was $348 million, which is a 5% decline versus prior year. Adjusted segment EBIT was negative $34 million compared to negative $14 million last year. The primary driver for the decline in Global E-commerce revenues and profitability were headwinds in our Cross-Border services. Cross-Border revenue, which represented 17% of segment revenues in the quarter, were down

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

35% versus prior year, while gross margin dollars were down 67%. In addition to macroeconomic headwinds, 2 key client relationships are changing, resulting in lower volumes into the Cross-Border network. These changes have largely been incorporated into our guidance, and so have key actions we are taking to diversify and expand our Cross-Border offering, including the expansion of the Canada to U.S. and intra-Canada lanes. Although Cross-Border performance continues to be challenging, we are encouraged by the ongoing progress in Domestic Parcels.

Network optimization moves, which took place over a year ago, have resulted in consistently stronger service levels with on-time delivery now in the mid-90s. Our much improved service levels and client satisfaction have been key factors in increased volumes and revenues. Domestic Parcel volumes were $50 million in the first quarter compared to $41 million a year ago, a 22% increase, while Domestic Parcel revenues increased 16%. On a per parcel basis, gross margin was flat versus first quarter '22, and nearly $0.10 higher versus full year '22. We are encouraged by the team's ability to drive productivity gains as we scale volumes. In the quarter, per parcel transportation and labor costs improved 12% compared to first quarter 2022.

Unit fixed costs were flat as a result of investments in the second half of 2022. The improvements in transportation and labor unit costs were absorbed by lower revenue per piece. Specifically, more of our volume is less than 1 pound and coming out of peak, we saw softness in returns as retailers reduced incentives in order to cut costs.

The net was less attractive parcel mix in a more competitive pricing environment, which resulted in lower revenue per parcel. The path to profitability is largely driven by scaling the terrific network we have built. In addition, we are responding to current macro and industry conditions by focusing on the following 4 priorities. First, regarding clients. Our go-to-market team continues to succeed in spite of the softer logistics market trends. In the first quarter 2023, we signed 82 new contracts and completed 57 service launches compared to 45 and 44, respectively, in the prior year.

Anticipated revenue from the new arrangements is approximately 50% higher than prior year, and late-stage sales pipeline includes a more favorable mix of higher weight and margin prospects. Second, we expect our continued growth, combined with our investments in automation, to drive approximately 15% in per parcel transportation and labor productivity throughout 2023. Third, on the cost side, we have identified several older manual facilities where we see consolidation opportunities as part of a company-wide restructuring program, which I'll address in more detail shortly. Global E-commerce will be consolidating some smaller facilities and shifting those clients' volumes to neighboring more automated sites. In addition, Global E-commerce will be rightsizing the management oversight required for the new footprint.

We anticipate these actions, combined with productivity improvements, to deliver annualized savings of over $40 million. Fourth, in terms of Global E-commerce CapEx, we anticipate spending approximately $20 million less compared to the $51 million level we spent in 2022. The network build is nearly complete and operating efficiently. We expect to process the volumes contemplated in our long-term plan with fewer sites.

To conclude, Cross-Border weighed heavily on Global E-commerce first quarter results while Domestic Parcel continued to strive towards sustainable, profitable growth, the combination of higher volumes, better mix, more transportation efficiency and cost reductions are key to reaching profitability.

Let me shift gears and discuss our overall company cost actions in more detail. On the third quarter 2022 earnings call, I discussed expected cost savings. Given the continued macro uncertainties, we are announcing a restructuring program to further improve profit and cash flow. We expect this program, combined with other productivity actions, to yield annual gross savings of approximately $75 million, $25 million higher than previously communicated.

For this new program, we expect restructuring charges of $40 million to $50 million, with the majority of these to be recognized in 2023. This program, combined with the actions taken in the first quarter of 2023, will result in workforce reductions and facility rationalization. We expect to achieve roughly 2/3 of the total gross annualized savings or approximately $50 million by the end of 2024. In addition, we expect capital expenditures for the company to be closer to $100 million, which is roughly $25 million lower than 2022.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Regarding our capital structure. During the quarter, we bought $26 million of bonds in the open market and the 2024 maturity has been reduced to $227 million. We are actively exploring options to refinance our 2024 debt maturity. To be clear, the combination of cash and revolver capacity are sufficient to handle the maturity, if needed. For full year 2023, we continue to expect flat to mid-single-digit percentage revenue growth on a comparable basis. We also continue to expect adjusted EBIT performance to outpace the percentage change in revenue. In addition, we anticipate current business trends to continue into the second quarter. We expect improving results in the second half of the year, driven by incremental Domestic Parcel volumes and the previously discussed cost actions.

In closing, SendTech and Presort continue to deliver solid and predictable performance. In Global E-commerce, we made progress in Domestic Parcel and look forward to continuing this momentum as we move through 2023.

Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Matt Swope from Baird.

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

Could you talk a little more on the Global E-commerce profitability? You've talked at times about getting to EBITDA positive here over the last couple of years. With this tough first quarter there, is it possible to be EBITDA positive in Global E-commerce this year?

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

Yes. Thanks for the question. Listen, it's a much more challenging environment than we were anticipating. The key is that the team continues to strive for that. We talked a lot about the dynamics here. It is more challenging, but the team is super focused. And the cost actions that we're implementing will help attain as best an opportunity to achieve that.

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

The team is focused on that. That's what they have a plan to do, that's what they're paid to do. Clearly, after the first quarter, it's become a higher risk plan. So it is still the focus. There's still a credible plan in order to get there, but it's a tougher hill to climb than we expected in this environment.

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

Marc, you guys sold Borderfree last year. It sounds like Cross-Border is by far the most difficult part of this right now. Is there a way to sort of get out of the Cross-Border business while maintaining the domestic business?

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

Yes. I mean they're separable. And I'm not going to comment on any particular portfolio actions. I will say, as I've always said, everything is on the table, that particular dynamic is clearly in our sight. So if we can find something that makes sense for our shareholders, makes sense for our bondholders, makes sense for our customers, we would take that path. So I'm not -- for obvious reasons, I'm not going to go a lot deeper than that. I will say that our guidance doesn't rest on that business becoming EBITDA positive. So we've derisked the plan in other ways.

So it's a good question. You know me, I mean, for 10 years. Everything has been on the table. Borderfree is a recent example. Software was an example before that. We'll do what's right. Because at the end of the day, if we can't make that business helpful to what we're trying to do in terms of making that overall segment profitable, then there's got to be a better owner for it.

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

Right, certainly fair enough. On the SendTech front, you guys talk about the secular decline in mail. How do you think about that going forward? As you think about in terms of volume or whatever the right way is to model that, what kind of percentage secular decline do you think about for mail as a whole?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. It's a super good question. One we talk about all the time. We have parlor games on the secular decline in mail. So the first thing I'd say is we don't see that changing. The secular decline of mail is kind of baked into the wood of the market and baked into the wood of how we think about the business. I tend to think about it around mid-single-digit decline, is kind of where it's been gravitating, if you look at it. And I think people lose sight of this. When I started, there was 70 billion pieces of mail in the U.S. Postal Service network, there's 48 billion pieces of mail last year.

So it kind of ebbs and flows based on what's going on in the economy. So I would think of it, and the way we think about it from a corporate modeling perspective is mid-single-digit decline. So as you think about that relative to SendTech and you think about the shipping revenue at an absolute level, gaining more than the mailing revenue declining. And that's kind of what we're teetering on right now. So when we talk about that business getting us nose above water, it's not that we see the secular decline of mail abating. It's just that the shipping revenue, which is a much bigger market and a market that's growing and we're doing fine and that, that absolute growth outpaces the mailing decline. We're -- last year, SendTech was minus 1, I think, so you can kind of see those dynamics starting to cross.

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

No, that's helpful. And then as we think about Presort and you talked there too about lower First Class and Marketing Mail volumes. Do you think about that the same way? Or are there any differences there when you think about the secular decline that Presort faces in terms of volume?

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

No. It is a little bit different in the following sense. SendTech has a very high market share in the mail markets that they trade in. So there's not a lot of headroom for them to grow. They essentially kind of are the market. Presort has a nice market share, but it has headroom to grow. So the way we think about Presort dynamics is, first of all, they've got headroom. Secondly, as mail volumes decline, other sortation companies have harder time getting the densities that they need in order to have attractive economics. So that becomes target acquisitions for us, and we're pretty active there. So we have a very disciplined process around tuck-in acquisitions in Presort.

It also becomes, as mail volumes decline harder for our customers, to qualify with enough densities, so you can pick up more there. And then I would say there's classes of products like Bound & Packet Mail and Marketing Mail that we have a very local share in that there's lots of opportunities for growth. So it is different dynamics. I mean Presort, if you look at the last several years, has grown more often than not. First quarter was a touch of anomaly. So we do think of those businesses. They're similar and they've got mail dynamics, just they've got different opportunities available to them.

I would say the other thing that's true in Presort is tremendous productivity opportunities available for us if we can get a little bit of invention with some of our automation partners to do more in the sortation facility. So as I said, it requires invention. It's not something that's commercially available today, but with a little bit of a mention, we can do more with less.

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

And when you're taking share here, is that typically from other sortation companies or is it from customers who have done it in-house and look to outsource? Where does that share come from?

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

Yes. All of the above. And by the way, we had a large customer that made an acquisition, they got larger and they in-sourced themselves. So I mean the dynamics are in both ways. But by and large, it's through acquisitions, it's through organic types of opportunities as densities become more difficult to qualify. It's just a terrific business.

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

All right. No, that's helpful. And then just a last one for Ana, maybe on that '24 bond maturity, Ana. When you talk about cash that's available, we've asked this question a couple of times in the past, but how much of your cash is available to be used for something like that? How much of your cash is tied up in the system versus how much could be free to handle a maturity?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes, very good question. So as you know, we finished with a little over $500 million of cash. I would say cash available from that perspective that's not tied up, whether at the bank or international or needed for working capital, you'll probably say, I don't know, somewhere around 15% or so of the total cash balance, maybe a little more. And then in addition to that, of course, as we've mentioned with the access to our revolver combined, if the capital markets were not available for any macroeconomic reasons out there, we feel comfortable that we can meet that maturity. Again, our preference would be to do the refinancing.

I actually want to add one thing while we're in the cash topic here for a second. As you know, we have the Pitney Bowes Bank and our bank, given the macro things that are happening in the banking sector, I just want to touch on that for a minute. Our bank is there for a very specific purpose, and the purpose is to facilitate postage. So our clients deposit in our bank for that purpose. And we have fluctuations in that as volumes shift, as clients come in and out. So far, everything we're seeing is exactly as we anticipated in the changes that we're seeing. We're not seeing anything out of the ordinary. And I just thought it would be important to highlight that as we are in this macro environment.

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

No. That's helpful, Ana. Did -- do clients ever try to take money out of the bank? Or is the money all just go into prepay postage?

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

Oh, the vast majority is for payments of postage and it's a floatation to either feed meters or permit mail for our Presort clients.

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

It's all payments, I mean, at a practical level. I mean there's -- if they're going to park money, they're not parking in our bank, they're parking in their commercial relationships. So the money is there for a very specific purpose. It moves in and out pretty fast. I mean, so it's -- the velocity of that is, I think, less than 30 days. So it's a very fit-for-purpose bank that customers use in a very specific way.

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

Great. That's very clear. And sorry, Ana, just to clarify, when you said on the $500 million of cash, did you say 15, 1-5 or 50, 5-0 percent is available?

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

1-5.

Operator

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

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

Yes, a few for me also, if I could. Marc, can you remind us GEC right now, what percentage of the volumes are Domestic versus Cross-Border? And -- or what's the best -- I guess, what's the most useful way to think about it? Is it parcels? Is it revenue? Is it both? That would be helpful.

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

Yes. So the way I think about it is, first of all, in context of the market opportunity. So the market opportunity for Domestic Parcels, the market that we're chasing after is probably 10 billion parcels, think about $5 per. So it's a $50 billion market opportunity. It's a super big opportunity, a market opportunity that traditionally, and we think going forward, although not at the moment, we'll grow that 10% to 15%. If you look at our business mix right now, it's probably 75% plus Domestic Parcels. So it's the biggest portion of the business by far.

Cross-Border is probably 20-ish, 15%, 20% of the numbers. And I would stress these businesses are separable. They share some structure, their sales force, but we are -- we've broken the businesses. We have the businesses by EBIT and we know how to break them apart. So I mean what's going on Cross-Border right now is kind of a double whammy. I mean, exchange rates have continued to be a headwind. That may abate at some point, although with yesterday's news of the Federal Reserve, it doesn't seem like it's going to abate

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

quite as quickly as I would have hoped. So interest rates still relatively higher compared to other countries.

And then as honest, we've had 2 large customers who are great customers. We enjoyed great relationships with that as you're inclined to do with some of these larger relationships have in-sourced portions of their business. So it obscures some of the progress -- that not some obscures the progress that's being made in Domestic Parcels where we think the market opportunity is. So it's -- I think it clouds something that, candidly, we're trying to work to make very clear to our external investors, both on the equity and the bond side because it's important in terms of how they think about the business.

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

That's super helpful context. And then just sort of more clarity around -- I think there was a remark you made in prepared remarks, 80% of the pipeline has higher -- 80% of the GEC pipeline has higher volumes -- is it higher volume...

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

High margin.

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

High margin, yes. Could you unpack that a little bit? And how does that stack up that 80% kind of relative to the last couple of years? Just to give some context around it.

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

So I'll answer them in reverse order. It's higher. It's part of what has happened is -- and this is a touch of an industry phenomenon. So as you guys follow the other industry participants, whether it be Amazon or FedEx or UPS, they're all trying -- they all have a little bit more capacity than they need right now. So I would say pricing is getting a little bit more difficult. But in that context, we landed a very large client last year that was accretive. So marginal revenue above marginal costs, but it was a big portion of the pipeline and it's a big chunk of the business. I love having it because you need a couple of anchor clients, but it certainly skewed the pipeline and it skewed to a degree our current revenue mix.

So I would characterize what we have now, the 80% higher than history and certainly higher than the second half of last year, but not appreciably. We're focused on the mid-market. Again, mid-market is where there's less price pressures, it's less served, it's a better market for us to hang out in. In terms of the type of offerings that we have that are higher margin, I would start with digital. We know particularly since digital has net revenue treatment now as opposed to gross. It's basically -- it's like a software business. It's got those kinds of margins.

I would say after that, if you unpack the rest of the business, Cross-Border traditionally have been pretty good margins. That obviously has got some pressures at the moment. When you look at Domestic Parcels, I would say there's a couple of different lenses. One is over 1 pound has better margins. And from a customer set perspective, middle market has better margins. So that's kind of on the delivery side and then obviously, returns has good margins as well. It tends to trend heavier in terms of weight. And because it's more complicated, there's a little bit better margin opportunity.

So we've really tilted the sales force. I mean, we knew with this large anchor clients that we are picking up, we had really incent the sales force towards the higher-margin items, and the team has done a good job, and you can see it in the pipeline. And I think it's not likely to evolve much in the second quarter, but I believe it will in the second half.

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

That's a lot of helpful context. Let me ask one more here, and then I'll see the floor. SendTech's EBIT growth in '23 is your expectation? I think you said shipping is now 11% of the revenue. So can you just -- could you just remind us of shipping margins and, I guess, the SendTech margins and how you're expecting the SendTech margins to manifest? Sorry, not SendTech, the shipping margins and the traditional meter margins right now and how you're expecting the meter -- how you're expecting how we should expect the meter margins to manifest through the year on the way to that EBIT growth?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

So there's different shipping businesses inside of SendTech. There's a subscription software business. It has subscription software types of margins. There's a business that's adjacent and runs off with the same device as the mailing business. So you think about our new products, they've got shipping and mailing. So those margins are the same as mailing. And then I would say we have a systems integration services business around lockers. That tends to have a little bit less margin in it. So on balance, we do not expect the increase in services -- I'm sorry, the increase in shipping revenue to be dilutive. We would -- we expect it to be -- come in at comparable margins all in, but with some different currents underneath, if that makes sense. So it makes your job from a modeling perspective a little bit easier. I wouldn't try to unlayer it, on average, it will work out the right way.

Operator

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

Stephan Guillaume ***Sidoti & Company, LLC***

This is Stephan Guillaume on for Anthony Lebiedzinski.

On your last conference call, you talked about having a higher-than-expected volume of lightweight parcels hurting your profitability in Q4. Can you give us an update on whether or not there was a notable change in mix of parcels in Q1 versus Q4 and Q1 last year? And how that may have impacted segment results for GEC?

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

Q4 and Q1 was similar in terms of the types of weight of parcels. It was down on a year-to-year basis. I think, as I said, we picked up a large client, in particular, who has traded down in terms of volumes. I think it's baked into the wood as the new margin -- higher-margin stuff comes online from the pipeline, it will begin to normalize.

Stephan Guillaume ***Sidoti & Company, LLC***

So are you expecting to bring in additional clients to GEC over the course of this year?

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

Yes. And we did in the first quarter, so Ana talked about -- I think we had 80-some-odd wins for a good chunk of revenue in the first quarter. Ana can give you the specifics. The pipeline is super good. Pipeline is as good as it's ever been. And it's -- as I said, it's trending towards higher margin stuff, not just higher weight but higher margin. So I will say, at the moment, the industry has got more capacity and some of the larger players -- and it's a touch surgical. In general, they talk about raising their prices, which is kind of how history works in this market.

But there's particular lanes of business or particular kinds of business where they become more aggressive. So I would say pricing, which has been kind of only one way in this business historically, at the moment is a little bit more challenging. As the industry gets rightsized in terms of capacity, it's our expectation that the industry will kind of get back to historical pricing actions, which is fairly consistent price increases each year of 5% or 6%. But that's -- at the moment, that's a little bit more choppy.

Stephan Guillaume ***Sidoti & Company, LLC***

That was helpful. Can you share more details about the facility rationalization, how many locations do you expect to close and when?

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

I'm not going to get into the specific locations. I will say these are older sites. They weren't automated. They're all close to sites that we've built that are new. We originally thought maybe we needed them longer term to be kind of safety valves for the larger sites. The larger sites are operating so incredibly well we just don't need them. So it's -- I'm not going to give you specific sites. Obviously, we're kind of sensitive from a people perspective and other side. But it's smaller sites that have been older. They're not automated, and it's just an artifact of the fact that the newer sites are running so well. Couldn't be more pleased with how they're doing.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Stephan Guillaume ***Sidoti & Company, LLC***

And can you comment on labor and transportation costs? Are you seeing signs of stabilization?

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

Yes, for sure. I mean, I would say two things. So I would say the transportation spot market has actually come down pretty substantially over the last year or 2, although it was 2 years ago, it was crazy high. So I would say transportation has not only stabilized, it's come down a bit. Labor and wage rates have not come down, don't expect them to come down. We are becoming more efficient on both dimensions, both labor and transportation. And what we're seeing is we get more volume into the network, you can just see the unit cost, both from labor and transportation come down.

So it's -- those dynamics are all kind of headed the right way. So it's -- as you look at how we contemplate the long-term plan and you look at the unit costs that are contemplated in the long-term plan and you see the trajectory that we're on labor, transportation, I would say, warehouses as well, the trajectory is exactly the right way. We need the volume and we need pricing to stabilize a touch.

Operator

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

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

Marc, can you talk a little bit about if it makes sense, you'd be willing to separate the Cross-Border from Global E-commerce like you've done with other assets in the past. But I'm wondering if you wanted to separate that business, is it not intertwined in terms of facilities and logistics and transportation with Domestic? I guess, how easy would it be if that made sense?

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

It's not intertwined in any of those dimensions. It does have sales and some similar operations expense, the logistics, the transportation, the sites are all distinctive. So it's -- so listen, I mean, these integrations are always challenges to them. I mean -- but this is doable.

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

And then, Marc, you talked a little bit about the changing environment for returns and maybe that's lowering return volume. So I'm wondering if you could just talk about maybe the level of decline you've seen in revenue from returns or maybe level of decline you've seen from the volume and returns, if that's starting to happen?

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

So I'd say volume is a little bit down. Price is a little bit up. Weights are a little bit up. So it's kind of, those dynamics are offsetting a little bit.

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

And then just, Ana, you talked about obviously gross savings you're anticipating. Can you talk at all about net savings you'd anticipate from the cost-cutting initiatives?

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

Yes. So the best way to think about this is we will have actions throughout time. So the best way to think about it is as we are moving here into the next few quarters, we will be taking actions and we anticipate from the new restructuring program that will cost us about $40 million to $50 million. And then the savings on a run rate basis, think about them on an annualized basis, from the restructuring program itself would be savings of $50 million and then in addition to that, we have specific productivity actions, particularly in the Global E-commerce segment that will drive an incremental $25 million.

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

I would also say, and I've said this before, we're never done. You're always in the seventh inning as it relates to efficiency actions. So we swept up everything we can see to kind of give you the best visibility for what the next year looks like. But we're not done. We will continue to work on this.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

And Marc, 1 last question. The Presort business is a business that's done well. You've done well in it. And in the past, you've talked about it's a fragmented business. There's always opportunity for consolidation. And I'm wondering in this environment, kind of as you look at your liquidity needs and where you are, is that a business that you could see acquiring other businesses to continue consolidation? Or would that not be something you'd look to do in the next 12 to 18 months?

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

No, It depends. I mean, I'd say most of the acquisitions that we've seen are, I would say, kind of in the $5 million to $10 million range. So they're pretty digestible, a couple of chunkier ones that are out there, and it would just depend on the economics.

Operator

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

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

Thanks, operator, and thank you for everyone's attention this morning. I thought the questions were terrific. Obviously, a lot's going on in our business, but I would remiss if I didn't acknowledge the great work that I thought our team did in the first quarter really across the board. It is a wonderful team, highly focused on serving customers and creating value. So I would just close by acknowledging their hard work, and we will similarly put our heads down and go back to work, and we'll talk to you soon.

Operator

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

DISCLAIMER

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

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

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

©2023 Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.