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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Third Quarter Earnings 2020 Results Conference Call. (Operator Instructions) Today's call is also being recorded. (Operator Instructions)

I would now like to introduce your speakers for today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President and Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations.

Mr. David will now begin the call with the safe harbor overview.

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

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our earnings press release, our 2019 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.pb.com, and by clicking on Investor Relations. Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments.

Also, for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website.

Additionally, we have provided slides that summarize many of the points we will discuss during the call. These slides can also be found on our Investor Relations website.

Now, our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

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

Thank you, Adam, and thank you, everyone, for joining our call. We turned in a good quarter and put up some solid numbers. I'm extremely proud of what the team continues to accomplish, especially while facing these challenging times.

Overall, revenue grew 13%. This is an organic growth rate that we have not achieved in well over a decade and double the growth rate we saw in the second quarter. Although the current environment is contributing to our accelerated growth rate, we recognize the opportunity in shipping, well in advance of the current conditions, which is why we spent the last several years making the right investments and taking necessary actions to shift our portfolio to this large growth area that complements our portfolio. And those investments are paying off, with our shipping-related revenues comprising half of our overall revenue. However, the question still remains for all of us. What will e-commerce look like in a post-COVID world?

Our marketing and communications team has been conducting weekly surveys with U.S. consumers to gauge several areas, including how shopping habits have changed and where they see these habits in a post-COVID environment. Based on what we are seeing in the market, it is not surprising that the survey results show that 45% of consumers, so they now do more than half of their shopping online, which is nearly 3x pre-pandemic adoption.

While the duration of this terrible pandemic remains unknown, we do know for certain that the market has shifted dramatically and consumers have adopted and adapted to the online buying, showing up on your doorstep experience. And we are fortunate to have invested in the products and services that help our clients be successful with the post-purchase consumer experience because this is an area that retailers can only afford to get right.

Stan will discuss the details of the quarter. But given how the environment has changed over the last 9 months, it's important to look at our results from a sequential perspective as each of our business segments turned in a strong quarter-over-quarter revenue performance.

Our e-commerce business grew 47% over prior year, exceeding $400 million of revenue in the quarter, which is a first for this business. I know I've said this on prior calls, but it bears repeating. This is a business that barely existed for us 8 years ago and is now on track to generate over $1.5 billion in annual revenue, and year-to-date has grown over 30%.

We continue to process a record number of parcels and signed a significant number of new clients, an indication that we are taking share as our services and value proposition resonate with the market, with more opportunity still in front of us.

As we discussed last quarter, the acceleration in demand and volume is bringing us to a level of scale that we originally anticipated achieving in 2 years. But we have more work in front of us to become more efficient, which the team is focused on.

We have taken the necessary steps to prepare for a successful peak holiday season. Over the course of the last few months, we signed leases on 3 new facilities and upgraded another, all of which will be running for peak. And we announced holiday peak pricing.

Unlike some others in the market, we used a simple, easy to understand, flat rate increase that helps our clients know how to budget for their holiday shipping costs. Given the performance in e-commerce, it would be easy to overlook the quarter-to-quarter improvement in our SendTech and Presort businesses. We are equally focused and well positioned to leverage the investments we have made in these businesses over the last several years.

Within SendTech, we've invested in new product offerings and channels. These investments have allowed us to find new ways to interact and conduct business with our clients, while adding value and saving the money. As a result, in the third quarter, we acquired over 8,600 SendPro clients through our digital channel, which is an increase of nearly 80% year-over-year.

We are delivering new capabilities around shipping and financing and building out new revenue and profit streams that are more subscription based. We continue to see improved take rates and activation for our shipping capabilities, which grew revenue at a double-digit rate. And our paid subscriptions for our shipping offerings grew over 60%.

We also saw a nice improvement in the level of equipment placements, with sales revenue improving versus prior quarter. We are now placing new mail finishing devices, which is a very important market for us. Shipment of these devices grew nicely in the quarter, and we entered the fourth quarter with a healthy backlog. And this business continues to turn in a strong EBIT margin that is within our long-term model range.

Given SendTech's contribution to our cash, improving the top line decline and delivering strong margins is essential to our overall capital allocation strategy. In Presort, we also improved our revenues from second quarter and improved the bottom line. And similar to what we are doing in SendTech, we've expanded our Presort services into the shipping space, created new revenue and profit stream for this business around Bound Printed Matter and Marketing Mail flats.

Overall, we are making continued improvement and progress across the portfolio, and I expect this momentum to continue in the fourth quarter. I would be remiss if I didn't again thank our employees, clients and partners alike. Our highest priority remains around their health and safety, and we continue to take all necessary actions.

Now as we head into a busy holiday season, this will be of the utmost importance as we remain diligent and very mindful of everyone's safety. As I mentioned before, one of the hallmarks of our culture is resilience, and that has enabled our company to endure. Looking at where we are from a longer-term perspective, I like how we are positioned, and I'm convinced that we will come out of this pandemic much stronger than we entered.

With that, let me turn it over to Stan.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Thank you, Marc, and good morning. Comparing our third quarter results to the second quarter, we doubled our revenue growth and improved overall EBIT dollars.

We continued to generate strong cash flow, growing $15 million over prior year, which puts us at about $186 million year-to-date. And in the third quarter, we repaid the $100 million drawn against the revolving credit facility. As a reminder, we had drawn down against our revolver in April, purely as a precautionary measure when COVID ramped up.

Given our cash flow generation and that we have no current need for the funds, it was prudent for us to repay it in the third quarter. We continue to see the effects of COVID play out across our business. We remain focused on providing a healthy and safe environment for our employees as well as our clients, partners and communities. Even with the COVID impact, we are moving in the right direction, and we expect to gain momentum in the fourth quarter.

Let me take you through the details of the third quarter. As in the past, unless otherwise noted, my statements going forward will be on a constant currency basis when talking about revenue comparisons and on an adjusted basis when talking about earnings-related items, including cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the financial schedules posted with our earnings press release and on our Investor Relations website.

For the third quarter, revenue totaled $892 million, which was growth of 13% over prior year. Adjusted EPS was $0.08 for the quarter, and GAAP EPS was $0.07. EPS includes COVID-related costs, which were partly offset by insurance proceeds related to last year's malware attack.

Free cash flow was $85 million, and GAAP cash from operations was $104 million. Free cash flow improved from prior year due to changes in working capital, largely around the timing of accounts receivable, which was partly offset by lower net income.

Looking at our capital position through the end of the third quarter. We ended the quarter with $820 million in cash and short-term investments. This is lower than the second quarter, largely due to the repayment of the $100 million drawn against our revolving credit facility. Additionally, during the quarter, approximately $150 million in cash and short-term investments was invested into longer-term sureties, which was net neutral to the balance sheet.

During the quarter, we used free cash flow to return approximately $9 million to our shareholders in the form of dividends. We made $5 million in restructuring payments and invested $21 million in capital expenditures.

Looking at our Pitney Bowes Bank, customer deposits grew 6% over prior year to $611 million. And within Wheeler Financial, we funded just over $5 million of new deals, bringing our total funded amount year-to-date to around $12 million.

From a debt perspective, we ended the quarter with $2.6 billion in total debt, which is about $120 million lower from the second quarter and primarily driven by the repayment of the $100 million revolving credit facility in addition to principal amortization of both of the term loans.

In terms of our net debt, when you take our cash and short-term investments and finance receivables into consideration, our implied net debt position on an operating company basis was approximately $700 million at the end of the quarter.

Turning to the P&L, starting with revenue performance by line item as compared to prior year. Business services grew 31%. We had declines in financing of 5%, support services of 7%, rentals of 9%, equipment sales of 12% and supplies of 13%. Gross profit was $295 million with a margin of 33%. This is a decline of about 9 points from prior year, which largely reflects the shifting mix of our portfolio.

SG&A was $239 million, which is a decline of $15 million from prior year. As a percent of revenue, SG&A was 27%, which is an improvement of over 5 points from prior year. R&D expense was $9 million or 1% of revenue, which was down $3 million from prior year. EBIT was $54 million and EBIT margin was 6%. Compared to prior year, EBIT declined $15 million and EBIT margin declined by just over 2.5 points, driven primarily by the gross profit decline, which was partly offset largely by lower operating expense.

Interest expense, including financing interest expense, was $39 million, which was down about $1 million from prior year. The provision for taxes on adjusted earnings was about $2 million, and our tax rate for the quarter was 11%. Weighted average shares outstanding at the end of the quarter were 175 million, which is about 3.5 million shares higher than prior year.

Let me now discuss the performance of each of our business segments this quarter. In our Commerce Services group, revenue was $538 million, which was growth of 31% over prior year. EBIT was a loss of $5 million and EBITDA was a positive $20 million.

Within Global Ecommerce, revenue was $410 million, which is the first time we achieved over $400 million in the quarter and represent a growth of 47% over prior year. Within domestic parcel services, volumes more than doubled from prior year to 61 million, driven by over 150% growth in our domestic deliveries. Digital volumes grew nearly 70% over prior year, driven by strong growth in our digital shipping APIs.

And in our Cross-Border services, we saw progress through the quarter with volumes growing nearly 30% over prior year, driven by a larger Cross-Border logistics client and improved demand. This represents a material improvement from prior quarters as we continue to innovate around customer experience.

Looking at EBIT, we recorded a loss of $20 million in the quarter and EBITDA was a loss of $3 million, both of which were an improvement of approximately $2 million from prior year. The third quarter EBIT margin of minus 4.8% was a 3-point improvement over prior year and roughly flat quarter-to-quarter. As we continue to gain scale, we saw postage, labor and transportation cost per piece improve as we move through the quarter. We continue to invest in this business to capture share, while this window of opportunity is in front of us.

In the quarter, we invested in 3 new facilities and upgraded another. And we are making ongoing advancements in automation for operational efficiency and our systems to improve data quality and capture and in cloud-based reporting alerts to better serve our clients. We also continue to be impacted by direct COVID-related items, which we expect some to continue and others to reduce over time.

With the additional capacity and the investments we've been making, we are prepared to handle peak holiday volumes. And as we have previously announced, we implemented peak pricing for the holiday season that is very competitive in the market.

Looking at Presort Services, revenue was $128 million, which was a decline of 3% from prior year. This represents a $10 million increase over the second quarter. First Class mail volumes were down 3% and Marketing Mail volumes declined 8% from prior year, both of which improved significantly from the second quarter.

Marketing Mail flats and Bound Printed Matter volumes grew 37%. And while still a relatively small part of our portfolio, this area represents a new revenue and profit stream for this business that barely existed a year ago. EBIT was $14 million, and EBIT margin was 11%. EBITDA was $23 million, and EBITDA margin was 18%. EBIT and EBITDA margins improved slightly quarter-to-quarter, but declined from prior year, primarily as a result of the lower volumes processed. We remain focused on our productivity initiatives. And compared to prior year, we have improved the pieces fed through our equipment per hour, resulting in 115,000 fewer labor hours to sort nearly 4.1 billion pieces. We expect these productivity gains to continue going forward.

Turning to our SendTech segment. Revenue was $354 million, which was a decline of 7% from prior year. This is an improvement of $33 million over the second quarter. Equipment sales declined 12% versus prior year, which is a significant improvement from the second quarter. We also saw a nice monthly improvement through the quarter, with September declining only 2% from prior year as the business environment started to recover.

We continue to see good demand for our SendPro Mailstation, a first of its kind device with meter in the cloud capability. This product is a replacement for our volume mailers, which is ideal for remote setups and for branch offices of large organizations. Since launching in April, we have shipped nearly 12,000 units, exceeding our expectations.

Shipments of our mail finishing devices in the U.S. grew at a high single-digit rate over prior year, and we entered the fourth quarter with a healthy backlog. This is a leading indicator for equipment sales revenue and points to continued sequential improvement in the fourth quarter. It also shows that our new product line, which we believe is well ahead of what the competition is offering, continues to yield a positive response in the market.

Supplies declined 13%, which is a significant improvement from the second quarter as usage and demand started to improve. With investments in our digital capabilities, we are making it easier for clients to order and reorder supplies.

In the U.S., 2/3 of our supplies transactions are conducted online. Financing revenues declined 5%. This quarter includes gains related to the sale and reinvestment of proceeds into long-term securities. Combined, rentals and support services declined 8% from prior year, largely on the lower portfolio.

We continue to see growth in our SendTech shipping revenues, reaching $32 million in the third quarter and growing at a double-digit rate. Specifically, our SaaS-based SendPro online offering grew its paid subscriber base by over 60% from prior year. The impact of shipping growth in SendTech goes beyond our hardware and SaaS-based offerings.

In the third quarter, our clients who finance their shipping activity with us doubled their shipping label volumes from prior year. Despite the decline in SendTech's revenue, the EBIT margin remains solid and within our long-term model range. EBIT was $113 million, and EBIT margin was 32%. EBITDA was $121 million, and EBITDA margin was 34%.

Importantly, the quality of our financing portfolio remains healthy, and delinquency rates are trending down from the initial small uptick that we saw in the second quarter related to COVID. We are also seeing improvements in payment behavior trends from the second quarter. We continue to monitor and take a disciplined approach to credit risk management daily.

Before we take your questions, let me recap. While this pandemic has caused disruptions across industries, we are fortunate to have made the investments in our products, services, channels and network to be able to continue to work with our clients and grow our business. We remain focused on our balance sheet and liquidity position, having paid down the $100 million of our revolving credit facility using cash on our balance sheet and still maintaining a strong cash position of approximately $800 million at the end of the third quarter.

We grew revenue 13%, an organic rate we have not achieved in well over a decade. We have achieved other noteworthy accomplishments around e-commerce revenue, Presort productivity measures and SendTech shipping capabilities. All strong proof points in our strategy to create a simplified business model focused around shipping and mailing with financing options underpinning the business is getting traction.

Due to continued uncertainty around COVID, we will continue to suspend our 2020 guidance. Overall, we expect continued progress with sequential improvement, largely in global e-commerce in both revenue and earnings in the fourth quarter. We are operating in a very dynamic environment, but remain focused on the long term, and that has served us well. We are well positioned to capitalize on the market opportunities ahead of us and believe that we will exit this pandemic as a stronger company.

Now before we take your questions, Marc would like to make a brief statement.

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

Thanks, Stan. 15 years ago, I was running the Americas for IBM, which was, at the time at IBM, one of the most difficult jobs there was. My then CFO, Jim Kavanaugh, had been in the role for several years. And Jim was a terrific executive. He subsequently gone on to become the CFO of IBM. But I got a call from Mark Lockridge, who is the then CFO of IBM, and said, we're going to make a change. And we're going to put this fellow Stan Sutula in behind Jim. Obviously, I was concerned, given I was new to the role as well and the difficulty, and candidly, Jim was a terrific executive and hard to backfill. But that began a relationship that I have enjoyed for the last 15 years, both professionally and candidly personally as well.

Stan and I over the 15 years have had an opportunity to talk about his career aspirations. And since I first met Stan at IBM, his aspiration is always to be a CFO of a super large company. And today, we're announcing that Stan will be leaving Pitney Bowes and joining Colgate-Palmolive in the coming weeks.

I was able a couple of years ago to convince Stan to take a detour from his ambitions and to join us at Pitney Bowes and what I thought was and still think is going to be one of the most successful transformations in the industry. Stan put his aspirations and ambitions on the sideline to help me out over the last 3 or 4 years and has accomplished a lot. He helped planned what was one of the most ambitious systems and process reengineering programs I've ever seen.

More recently, he has helped along with the great support and leadership of Debbie Salce, an important refinancing that sets the basis for our future. And as you see in today's results, the company is now on sustained revenue growth in what I would say is soon to be sustained revenue and profit growth.

Stan and I talked about his next steps, and we've been talking about his next steps over the last 12 months. It was important to Stan and obviously important to me that we make this transition when the company is at a position of strength. Over the last several quarters, it's become imminently clear to myself, to the Board, to Stan, that, that moment where the company is strong is now. And as much as I hate to announce it and hate to lose such a wonderful colleague, now is the time for Stan to move on and fulfill what has been a lifelong ambition.

So while I hate for Pitney Bowes and candidly hate for myself to lose such a strong executive and wonderful colleague, at the same time, it's wonderful to see such a great person and such a quality person have such an incredible opportunity.

I kept on trying to convince Stan that we'd be a $20 billion company soon enough, but I couldn't get the accountants to agree with my assessment. So Stan will be with us through the end of next week. We've begun a search. I would tell you, we've got a great list of internal and external candidates, and that slate continues to get better and better. So it's my hope within the coming weeks that we're able to backfill Stan. And I'm quite confident we'll have a great executive.

So with that, we'll take your questions for this morning.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first 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***

First of all, congrats, Stan. Hope -- wish you the best of luck. Marc, I wanted to ask you about the Global Ecommerce business. Obviously, you're driving revenue, really benefiting from the trends that are happening. And I'm wondering if you could talk a little bit about kind of the EBIT losses. I thought maybe the incremental revenue might help out a little bit more from incremental profits. I was just wondering if you could give a little bit more detail about what's happening there. What's your outlook would be for that segment in terms of getting to profitability?

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

Sure. So if you look at the performance in the quarter and Stan alluded -- not alluded, he said it. The increased revenue improved the unit cost on a postage perspective, on a transportation perspective and on a labor perspective. And precisely the way that candidly, we expected and consistent with the long term. What didn't improve on a quarter-to-quarter basis was the warehouse cost. Now there's a couple of different dynamics underneath that. One is, Stan mentioned, we added 3 new warehouses to the network in the quarter. So you had the incremental expense and I would say partially utilized or not at all utilized warehouses. So that was number one.

The second thing is, and I said this in the second quarter, we're not as efficient inside the warehouses as we will ultimately be. So if you look at the revenue performance, it drove the kind of scale benefits at a unit cost level that we were expecting. Warehouse is still in front of us. As it relates to going forward, I'm going to resist the notion of calling an inflection point or a particular time frame for profit.

And the principal reason is there's just so much uncertainty around COVID. It's hard to be -- hard to have a ton of confidence. What I would tell you about the fourth quarter is, mathematically, I could lay out for you a very logical rationale for why this business will be profitable in the fourth quarter, but it's predicated on 2 important factors. The first is COVID. And that COVID doesn't get substantially worse. We don't lose a facility within the network. End-user demand doesn't go to hell, et cetera, et cetera.

And the second is that our own efficiency inside the warehouse continues to improve at the level we expect. So I'm not going to call a particular quarter for profit. I will say the third quarter kind of yield the unit cost benefits that we see, and we're knocking on the door of profit overall.

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

And then Stan, can you -- I saw that other income was a benefit this quarter. I'm wondering if you could just talk a little bit about maybe what that is? Can you give some context around that?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. So Kartik, first of all, thanks for the question. When you go look at the other income, we had the malware attack last year. And as we've disclosed previously, we have gotten some proceeds from insurance. So primary driver in the other income is Ryuk (proceeds and -- from the insurance companies. We continue to work through that overall.

What I would emphasize, though, is we talked -- we just finished talking about the impact of COVID on the business. I would tell you that the COVID impact on the business outpaces the Ryuk proceeds we received in the quarter. And look, we run this for long term. There are going to be puts and takes here as we go through the quarter, but COVID definitely outpaced the gain we had from the Ryuk proceeds.

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

I'm going to make one other point about the fourth quarter to your question, Kartik. One of the meaningful things that happened in the industry over the last 90 days is the industry put forward pretty meaningful price increases. Our competitors put price increases out for peak. We followed suit albeit to a slightly lesser extent than competitors and hopefully in a much more customer-friendly way.

So if you look at the expected volume in the fourth quarter and you look at the price increase at a per parcel level, it's a meaningful benefit on a quarter-to-quarter basis. So that -- as you think about the overall business, that price increase for the fourth quarter and how prices work out into next year is a really important dynamic, but it's why I'm more confident than I've been about the business and that there's some pricing leverage in the marketplace.

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

And then, Stan, just last question. Are you able to just kind of frame up the cost you're -- the additional costs you're seeing because of COVID-19, even if it's a range, just to get an idea of the type of pressure it's putting on the P&L?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. Look, if you look across the business, and look, it's -- as you would expect, there's some easy ones to put your finger on, like PPE activity we're buying, and then there are broader impacts. So what I'm talking about is a more direct impact right now. But you should assume we're in the neighborhood of very high single-digit millions, and that does not include the impact to, I'd say, the sales side of the business.

So when we have SendTech and you can't get into a client site to do the install, hence, you can't recognize revenue, I'm not including that impact. What we're talking about is the impact for staggered shifts, the impact for paid time off. If you've tested positive or have been exposed. And talking about the PPE, remember, we're setting up the new facilities. So you have to go set all that up. So it is still an impact on the business. We, I think, are getting significantly better at managing it. But our primary focus, we're going to put that expense for aside, we have to keep thousands of workers healthy and safe into our facilities. And we're not going to spare expense and taking that on.

Operator

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

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

So yes, first, congratulations, Stan, on your next new opportunities. It certainly sounds pretty good. So if we could just step back and mimic, can you guys talk about the revenue trends that you saw throughout the quarter? I think, Stan, you also touched on SendTech business seeing some meaningful improvement in September. But if you could just go over the different segments as to the progression of the revenue trends throughout the quarter, that would be good.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Sure. Anthony, thank you for the question. It's interesting because it varies by business. So if you take a look, August tends to be a lull for most businesses, given the international nature, heavy vacation time, et cetera. If you take a look at the total, we certainly saw that in total. But let me go kind of segment by segment. So Global Ecommerce started off with a stronger July, and that's really catching up through some of the volume that was coming in through the end of June.

August came down but still grew 40%. And then in September, it started to gain momentum here, essentially growing at the same rate as the full quarter. So Global Ecommerce, one of the things we talked about is, when you have that lull in August, we had a decision to make. And that decision was, do we pull back on all the staffing that we set up in Q2 to handle the surge in volume, and we elected not to do that. We looked it to try to manage that because we knew we had a peak holiday season coming up, and it is getting tougher to get labor out there. So we maintained that activity for the staffing.

If you go to Presort, Presort has a seasonality as well, both by week and by month. And I would tell you that we gained momentum heading into September and actually had a small amount of growth, and that really is coming from the volumes. I would tell you, those bounce up and down a little bit depending on what's happening, but down 3% for the quarter. And we got a little bit of growth in the month of September.

I think SendTech is the interesting one. So we were down double digits in July. And then August and September got better, and we ended up down 7%. That's a material improvement from where we were last quarter. I think one of the important aspects there are those equipment sales. Last quarter, we're down 32%. The quarter, we're down 12%. And as we exited the quarter, we were down 2%. Now that could be impacted by COVID, the ability to get in and install machines within clients. But we've also changed our go-to-market with the new mailstation that gives us other avenues to try to grow that revenue.

So I would tell you, I think we exited the quarter with some good momentum here on that. And as we look towards fourth quarter, expect to see continued growth.

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

Got it. So your free cash flow has improved year-to-date in the third quarter. How should we think about free cash flow for the balance of the year? And as far as 2021, could we expect the free cash flow to continue to improve?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

So free cash flow -- again, Anthony, thanks for the question on that. Free cash flow for the quarter was quite good at $85 million of free cash flow, and that's up year-to-year. I think the more important one or more interesting one is the $186 million on a year-to-date basis. Now certainly some of that comes from finance receivable runoff, which is never how we want to generate free cash flow. But I would tell you that that's becoming less there, and that's a good news story because you're adding earning assets back to the balance sheet.

If you take a look at where we are year-to-date, we're actually higher than where we landed last year. Now in the third quarter, one of the drivers in the third quarter was some timing around accounts receivable. So accounts receivable, while it was a big contributor, we improved our DSO. Some of that's going to be timing, and I think we'll revert back in the fourth quarter. But I think it's important to step back and take a macro view.

When this COVID first broke out, there was a lot of question around how much free cash flow could we generate. And I've been really proud of the team. The leadership team here knows I'm a hawk on cash. We bring it up and talk about it every week and every day. They have done a terrific job on collections, managing delinquencies, being proactive, managing inventory levels and CapEx investment. And that balance has allowed us to deliver a strong free cash flow.

So as we close out the year and looking into next quarter, I'm confident we're going to be in a good position for the full year. I do think we'll see accounts receivable level out a bit, and that's going to come back. And I think you see a flip-flop on the timing.

That also depends on what happens in the fourth quarter and the level of billings, particularly in December, as you know, from that. But I will step back, look at the fundamentals. We're ahead of last year on a year-to-date basis by a material amount. And the DSO is improving. And I think when you look at those -- that combination, that portrays well for the future.

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

Got it. Okay. And I guess my last question, looking at the Global Ecommerce, the revenue growth accelerated from 2Q to 3Q. Just if you could perhaps parse out or maybe give us some color as far as organic growth versus growth from new clients that you signed up for this year.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Well, they're all organic. There's been no acquisition activity in Global Ecommerce. We added over 100 clients in Q2, and I would tell you, those are still onboarding. So we have not felt the full benefit from that. Adding 3 new facilities and expanding a fourth, and those 3 new facilities as of the beginning of next week will all be up and running. So we have 2 up and running. The next one will be up and running at the beginning of the week to satisfy peak. But when we look at the cohort for this quarter, we also added a significant number of new clients whose volume is not yet in. And I think that portrays well.

I think what it really says, though, Anthony, is that the value that we're bringing in a marketplace is resonating with clients. We've made the investments to better serve those clients, and we're built on e-commerce. We're not trying to convert a B2B to a B2C. So that focus and weaving in technology, I think, has resonated with clients. So I would expect that we're going to see continued contributions. And again, the third quarter clients are all going to be incremental -- largely incremental in front of us.

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

I would just build on that. I mean -- so I think the short answer to your question is it's all organic, and there's very little impact from the new customers. Without being specific, new customers in the third quarter were roughly the same as the new customers in the second quarter. So that's in front of us.

If you step back at an industry level, Stan made a really important point. We have a fit-for-purpose network that is business-to-consumer e-commerce oriented, which is different than anyone else in the industry. The other thing I'd say is the industry is out of capacity. So we're picking up share because there's just nowhere else to go.

And we believe these relationships are quite sticky because of the capabilities that we have or entered in candidly the way that we're talking to these customers. So it's a unique opportunity. It's one that, to a degree, we saw coming, but it's clearly been compounded by what's going on with COVID and how buying habits have changed.

Operator

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

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

Stan, congrats. We'll miss working with you. And hey, who knows, maybe there's some box seats in your future. So maybe we could. We -- I got a couple here, if I could. So you mentioned, I think it was anecdotally in the prepared remarks, something about -- and this is there for strong momentum into the December quarter or I guess we're in the December work, so strong momentum for this quarter. And so from a higher level, could you just clarify that?

And then I would -- we'd love to get a little bit of context. I know you're not giving guidance. But how to think about that momentum? And then maybe any leverage across the businesses and the moving parts, so we can think about how to sort of set margins and earnings for that, at least, so we can think about how we can kind of do that ourselves in -- since you're not giving guidance. And I have a couple of follow-ups.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Okay. A lot in that question on, but let me see what we can do. So first of all, on the momentum point, we have always stayed focused on investing for the long term. And I think what you're seeing over the last couple of quarters, in particular, is a manifestation of that coming through in our results. If we had not invested in our network and Global Ecommerce way ahead of the curve, we would not have been able to handle the capacity that's coming in.

So we've seen momentum in that business with dramatic surge in volumes. Our volumes more than doubled on the domestic deliveries here in the quarter and a dramatic surge in revenue. We feel well prepared to handle peak and heading into the peak season. I think you'll see that momentum continue. So we feel pretty good about that. And remember, we grew 13% in the quarter. We've grown 7% year-to-date. I think it's a really good sign for the time the team has put into this.

But it's not just what you see. And when we look at momentum, we've seen SendTech get better quarter-by-quarter. And while we're down 7%, that's a much better performance than it was in Q2. We are starting to see clients slowly reopen, and we've adapted our ability to do that. And I'm encouraged by what you see in shipping. Shipping is over $30 million. It's growing double-digit, and the paid subscribers grew over 60%. That's a new revenue and profit stream for that business that I think portrays well for heading into the future.

And then with Presort, you definitely feel the effect of Marketing Mail and First Class Mail, but that got better as well. And I'm encouraged by what Debbie Pfeiffer and her team have done to build out productivity, and they have a very good foundation to grow for the future. We've made investments in that business. When you think about the unprinted matter and Marketing Mail flats, that business essentially didn't exist a little over a year ago, and it's growing over 30%. So that represents another new revenue and profit stream.

So again, is it going to be a straight line? No. But I like the momentum heading out of the quarter and heading into fourth quarter and next year. And with that incremental scale and base, I think, gives us the opportunity to also improve margins. In GEC, I think we will see the benefits of that scale. We've seen in Q2. We see the signs of it in Q3.

But there are some headwinds. We have some Ryuk proceeds this year. They're not going to be there next year. We've got a headwind as we go through -- like every other company, we haven't traveled and all kind of stuff. That will become a headwind heading into next year. But I like the foundation of where we are. It's solid. It allows you to build a good business off of it, which I think we've done for go forward.

In the margin in the SendTech and Presort businesses, they're well run. I mean the SendTech business, with Jason Dies and his team, they are still in their long-term model range despite the declines and I think have positioned themselves to come out stronger out of this pandemic than as we entered. And then Presort, as the volume picks up and we expand our offerings, I think there's a great opportunity for Presort as well heading in to demonstrate margin improvement.

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

The exit rate for both Presort and SendTech of the quarter was higher than the overall quarter. So one way to answer your question or to think about it, I guess, as you phrase it, is to look at the exit rates of the quarter. And the 2 mailing businesses, the exit rate was stronger than the overall quarter.

In Global Ecommerce, and what I would point you to is, first of all, the macroeconomic circumstance where Global Ecommerce has just taken off, so we recently did a study, now 47% of the consumers do 50% of their shopping via the Internet, via e-commerce. So there's strong macroeconomic momentum in that marketplace. The price increase helps with revenue. And candidly, the new customers haven't -- we haven't felt the impact of that yet. So it's -- that's one way to look at it.

The other way to look at it is what the heck's going on with COVID. And that's kind of the wild card, and that's why we continue to be cautious about making predictions because it's just too hard to understand what the overall impact is going to be from COVID, both at a macroeconomic level as well as a microeconomic. I mean, I reflect back on March and I shut down the offices around the world, and I thought I was shutting down for a few weeks. We're now almost to November, and most of the offices still aren't open in the United States. And it's scattered around the world. There's no way I ever would have predicted that. So we have a high degree of humility about predicting the future here.

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

And Marc, that's helpful. Let me ask -- dovetail to have one question -- one more question and then a quick housekeeping item. Given all this occurred and the investments, I know there's a bunch of levers to what's going on in e-commerce, are you guys thinking any differently given what's going on with volume and share gains in the near to intermediate term about the investment strategy?

And how -- and should we think differently about sort of the get to profitability exercise that we were thinking about pre-COVID? And the reason I'm asking that is this obviously comes off a lot of the question. We work with ourselves in our modeling. If we should be thinking differently about it, given the volume opportunity, the scale opportunity you guys have in front of you, I want to at least be aware that we should be thinking about it differently.

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

In general, I would say the answer is, no, we're not thinking about differently with this caveat. If you project out a couple of years, it might be that the overall level of EBIT is the same as what we had talked about in the original model, but at a slightly less margin. And that would speak to mix as well as kind of where you are in the efficiency curve. So the overall EBIT opportunity and EBITDA opportunity, I think, is pretty consistent with what we see. It might be over slightly more revenue and therefore less margin. But that's not a long-term issue, but it's the next couple of years.

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

Got it. And then quick housekeeping. Stan, the dynamics of the other income that you spoke to for the September quarter, is that now complete? Or will any of that sort of bleed into the December quarter as well?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

So as again, we said that the Ryuk insurance proceeds were there. We still have some ongoing discussions with the insurance companies. But as you all know, there's no guarantee on how that would play out. And we did have one other small settlement going the other way and other income working with a client. So will that continue? We'll work through the rest of it with the insurance companies, and we'll see how that plays out.

COVID, we think, is going to continue heading into the quarter. We have our eyes wide open. That's one of the reasons we're not providing guidance because it's so dynamic and not knowing where that's going to go. Again, we stay focused on health and safety of keeping thousands of employees coming to our production facilities, and we're not going to scrimp in that area. So if that has a bigger impact, that will flow through, but we're not going to scrimp in that area.

Operator

Your next question comes from the line of Allen Klee from National Securities Corporation.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***

You guys mentioned that delinquencies have been improving sequentially. How should we think about when you might reconsider your strategy with Wheeler Financial that you'd be comfortable enough to maybe kind of ramp that up to what you had thought in the past?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. Thanks, Allen. So when we look at delinquencies, we -- well, it certainly bumped up. Our portfolio, I think, has performed very well going through that. Now part of that is, Christopher Johnson and his team, they're proactive. We're reaching out to clients that we think are going to be affected and working out some of those arrangements. And I think that's been a positive effect overall.

Now in terms of portfolio, we wrote about $5 million of business -- originated $5 million of business through fundings this quarter. That puts us about $12 million year-to-date. We've said that we believe this would be less than $25 million for the year. I think you could see us probably in that ballpark. Look, we're going to see how the market evolves and develops, and it's not just third-party leasing. We do a lot of third-party lending, which has a very different profile, less cash consumption, good turns and good profitability.

What I would leave you with is we're not going to give guidance on that part of the business. If the market opportunity is there and the returns are there, we will be prudent. And as we look at this part of the business, we still think that has a great long-term opportunity, but we are not going to do deals that don't make sense financially. And we're not going to do that just to fill up a portfolio, and I think we've demonstrated that discipline.

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

I would say one thing. I mean, so Stan's right. I mean, we started out with a view that we were principally focused on equipment lending. That market price has obviously become pretty hard to price risk. What we're focusing more on now is what Stan said, and that is working capital. That's a little bit shorter duration. It's higher velocity. It's easier to price the risk. So the principal answer to your question is, we'll deploy more capital when I can price or when the team can price the risk better. But right now, I'm highly cautious about our ability to price risk.

Allen Robert Klee ***National Securities Corporation, Research Division - Research Analyst***

And my last thing is on Global Ecommerce. First, you talked about getting your unit economics improving with the one area that is still more of a work in progress being a warehouse. What are you actually doing to try to get better productivity out of warehouse? And then the other question is, you mentioned Cross-Border volumes were up nearly 30%. You got a new customer. Could you just dig into that a little more to help us understand what's going on there?

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

Sure. I mean, so the answer on what are you doing in order to get better in the warehouse is, the first is utilization, right? I mean so we brought on 3 new large facilities in the quarter. They were, obviously, not utilized or not very utilized in the quarter. So number one is utilization. Number two is the labor inside of those 4 walls is still pretty new, and there's a learning curve of the labor in order -- around prosecution of their jobs.

The third thing I would point to is, if you look at where the network is coming from, each one of the facilities is kind of its own world. So standardization of processes, standardization of technology across the network is really important. When you look at the summation of all of the different warehouse initiatives around efficiency, it's easily measured in the tens of millions of dollars that we have on our sites over the next year or so.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

The only thing I'd add to that, Allen, is the productivity. We don't view that from just a single lens. And we've talked previously about we've done time and motion studies, process studies. When Nick Smith and his team sits there, we attack this from every angle. We use robotics. We're using automation. We're streamlining the processes across our facilities, and we're looking end-to-end about how we do things. And I think they're making some good progress.

The other question was around Cross-Border. And Cross-Border is really a function of a few items. One, there's just recovering demand in a marketplace. If you think back to the beginning of the pandemic, many areas simply shut down and did only domestic type of activity. We've seen that reopen. And then we've seen a nice uptick in that business.

The client that we've referenced is not a new client, but it is an existing client with growing volumes. And that certainly has been helpful. So that business is something that we spend time on and think we have good client experience as we do that. So I'm encouraged to see that part of it pick up again. I think it contributes to the total.

But I would step back and look at -- we're growing here. This is multi components that we have. So we certainly have domestic delivery. We've got returns. We've got fulfillment. We have the digital experience, which we manage with the physical side. We have cross-border. And that's what makes up Global Ecommerce. So born for e-commerce, not again, born to do B2B. And I think that we're seeing that manifest and a good client experience and good growth in the business, and I think we're gaining share.

Operator

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

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

Congrats to Stan, and we'll miss you. I think it's interesting. The recruiters out there are probably looking at imaging companies these days as great trainers of CFOs, if you think about, Lee going to Apple, you're going to Colgate and Steve Fieler is at HP is going to HP -- so I think it -- or to Google, sorry. So it seems like a great training ground, and we wish you well.

I guess my first question is you had some price increases or you've announced some price increases from e-commerce perspective in fourth quarter because of volumes and, I think, some of the incremental costs. How are you thinking about the ability to hold those as you go into first quarter? And overall, can you talk a bit about pricing power that you're seeing in the marketplace? And then I have a follow-up.

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

The short answer is we're not certain how pricing works out next year. That being said, if you look at the other participants in the industry, they're all talking about continued constraints within their networks. They're all talking about -- and to a degree, complaining about lower margins than they're used to. So well, it's not certain, and we're a price follower in some ways in this marketplace.

When I look at the others that have recently announced earnings, when I hear supply -- continued supply constraints -- across the network, I hear commentary on margin pressures that are dilutive to their overall business. That personally leads me to the conclusion that I think it's more likely than not that prices continue to drift up. But it's an open question. And as I said, we're a follower here, not a leader, but we pay close attention. So I think the preponderance of evidence from where I sit suggest that prices go up, not down. And you've got on top of that labor, which is increasing as well.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Shannon, the only thing I'd add to that is, it was just tied to peak holiday and a flow-through. As we've gotten bigger, the scale that, that brings gives us a wider -- we've talked about adding a large number of clients in Q2, a large number of clients in Q3. And when we grow that business, we also get some pricing leverage in that area.

And then candidly, we weave a lot of technology into what we do and leveraging that technology, I think, we could continue to price smarter and better serve our clients and get more sophisticated as we go through that. Gregg Zegras and his team, we talked last quarter that we brought in some help that looked at our pricing structure. We're seeing some benefits from that. But I think the combination of scale, limited capacity in a market, I think, leaves us in a really good position as we go forward.

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

I mean if you just to do our math, I mean if you assume that $0.50 to $1 of price increase is realizable across volume of 250 million or 300 million parcels, you kind of get the order of magnitude of what's potentially available to you, if pricing conditions, I won't say improve, but at least stay where they are.

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

Yes. It seems like there should be some pretty significant leverage, assuming costs don't go up commensurately for whatever COVID reasons are, hopefully, will be past that at some point here.

And I guess, how do I think about the time to ramp new customers within e-commerce since you're signing so many? And I'm sure there are various sizes. But have you been able to speed that process, given you've gained so much expertise in the last couple of quarters?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***

Yes. It's actually a good question, Shannon. And oftentimes, it's not just a one sided affair. That's why we -- our clients become our partners in this endeavor because sometimes, when are they ready to do the cutover and they want to ramp up, not go big bang oftentimes, so we'll start often with a ramp-up process. I would tell you, I think we're getting better at that with our clients. And the added capacity that we brought into the network absolutely helps.

And then just candidly, as we ramped up the volume significantly and opened up, the management teams are getting far more experienced. And again, Nick Smith's team, as they go through this, they've done a good job of improving that client experience. And we weave the technology in so we get better tracking, better reporting for the clients. And so this is often the partnership between the 2 on how fast do they want to go and what facilities are going into, but I think we're seeing acceleration in that space.

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

Great. And again, Stan, congrats. One last question, Marc. How are you running CFO during your search? Do you have an interim? Or are you just relying on the team?

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

Both. We've announced Joe Catapano as our Chief Accounting Officer, will look after the function while we're in the middle of the search. So Joe, obviously, has a broad understanding of the company and will be able set of hands to lead while we conduct the search. But as I said, I don't expect the search to go on terribly long. We have had a head start here.

Operator

And at this time, there are no further questions.

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

Terrific. Let me close. And again, I'd be remiss if I've been for one last opportunity I thank Stan for your contribution and what you've done for our company. And from a personal perspective, you've been an incredible partner. And you'll be sorely missed inside of these 4 walls that I fully expect that I will continue to see you on a regular basis. And I'm certain, I speak for all of us that we not only wish you well, but we'll all be moving to Colgate-Palmolive products.

Listen, some of you are new to the Pitney Bowes story, others have been following and investing for a while. Some of you are following and investing for a long while. For those who've been following the company for a bit, this quarter's performance, 13% growth and 7% growth for the year is a different performance than you saw a few short years ago.

It would be easy to conclude that the company is now succeeding in spite of our issues the last couple of years. I would come to precisely the opposite conclusion, and that is, we're succeeding because of the conscious and purposeful decisions we've made over the last several years. It is not easy, and you see the reticence of others and other industries to move to new channels. It's expensive. It takes time to build a tele channel. That was a great thing to do in 2014. More recently, digital channels, it takes time to invest in new products and new capabilities.

If you look at the SendTech story, it's new products with new channels that didn't exist a few short years ago. Global Ecommerce as a business didn't even exist, and it's certainly disruptive and hard to reengineer and automate every business process at the slug. And more recently, it's painful to invest in front of demand, but that is the nature of e-commerce. If we had not invested in front of demand in e-commerce, we wouldn't be able to grow 47%. And you see what others can do that haven't made those investments. It's a much more modest level of growth. But we've always pointed to the aspiration of creating long-term value. That continues to be our north star. But what I would tell you now is you're starting to see what the long term really looks like.

We're not done, and we got more to do. But as I reflect back, and as we've pointed to our objective of creating long-term value and long-term capabilities, third quarter was a glimpse. Fourth quarter will be another one, and we'll continue to put points on the Board. So as I said, more to do for sure. But I think it's worth a reflection because as you look at the overall industry, there's many different theories of how it is you create value and how it is you run businesses. We've taken a different approach. It was, in some ways, a more painful approach, but it is consistent with our thoughts on how it is you create long-term value.

So more to do. We've got a lot of work in the fourth quarter. Stan, again, we will wish you well, and we'll talk to all of you soon. Thank you very much. Be safe.

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.
