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PBI - Q4 2011 Pitney Bowes Inc. Earnings Conference Call

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OVERVIEW:

PBI reported 4Q11 revenue of $1.3b and GAAP diluted EPS of $1.28. Expects 2012 revenue growth excluding impacts of currency to be plus or minus 2% and diluted EPS from continuing operations to be $2.05-2.25.

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PRESENTATION

Operator

Good afternoon, and welcome to the Pitney Bowes' fourth quarter and year-end 2011 earnings results conference call. Your lines have been placed in a listen-only mode during the conference call, until the question and answer segment. Today's call is also being recorded. If you have any objections, please disconnect your lines at this time. I would now like to introduce your speakers for today's conference call, Mr. Murray Martin, Chairman, President and Chief Executive Officer, Mr. Michael Monahan, Executive Vice President and Chief Financial Officer, and Mr. Charles McBride, Vice President Investor Relations. Mr. McBride will now begin the call with the Safe Harbor overview.

Charles McBride - *Pitney Bowes Inc - VP, IR*

Thank you. 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 2010 Form 10-K annual report, and other reports filed with the SEC that are located on our website at www.pb.com by clicking on our Company, and Investor Relations. Please keep in mind, that we do not undertake any obligation to update any forward-looking statement, as a result of new information or developments. Now, our Chairman President and Chief Executive Officer, Murray Martin will start with an overview of the quarter and the year. Murray?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thanks, Charlie. Good afternoon, and thanks for joining us today. Let me start by sharing some thoughts on our business. Mike will follow with the details on our fourth quarter and full-year results, and I'll provide full-year guidance for 2012. After the presentation, we'll take your questions. 2011 was a year in which we continued to make progress, in laying the foundation for longer term growth and value creation. We are pleased that we were able to achieve our original earnings objective and exceed our cash flow target, despite a business environment that remained unexpectedly challenging throughout the year. As part of our strategic transformation program, we continued to take actions to streamline our business processes, and improve the way we interact with our customers. Our cost structure is now more variable and efficient. And as a result, we achieved EBIT margin improvement for the year on our adjusted results, despite lower revenues.

However, before I discuss some highlights of our fourth quarter performance, I want to put our long-term growth strategies into perspective. Our growth strategies are grounded in an understanding of the fundamental changes in the way businesses and customers communicate. Historically, when businesses communicated with customers, it was largely around transactions, and primarily through physical channels. The business communications landscape is much more complex today. Now, businesses are communicating with customers more frequently, through multiple channels, in an effort to stay connected in hyper-competitive global markets. Customers are seeking more control, as they search for timely relevant offers, in the midst of an abundance of information from multiple sources. Digital communications continues to increase through -- though physical communications remain an important part of the overall communications mix. Businesses are struggling to reach all of their customers with the right offers, in the ways that their customers want, with the technologies of their preference. Our growth strategies are built on helping Enterprise and SMB customers navigate this complex environment.

In 2011, strategic transformation allowed us to continue making the necessary investments to expand our capabilities, despite the revenue weakness that persisted throughout the year. As a result, we are delivering a wider array of solutions to help our customers manage physical, digital, and hybrid communications with their customers. Throughout the year, we continue to make progress in establishing Volly, as the secure digital mail platform of choice for the industry. We are actively building a community of mailing providers that are interested in offering their customers digital options for aggregating, storing, managing, and making payments for a variety of content, bound for their physical address. We have now signed over 40 large third-party mail service providers who produce billions of bills, statements, and account communications each year, for more than 5,000 companies and consumer brands. Each of them, are working to bring the companies they represent into Volly.

Our investments also enabled us to change our value proposition with our SMB mailers, from meters only to a broader solution set, that includes our Smart family of cloud-based digital solutions. The momentum is growing for this family of solutions, which help SMB customers use QR codes, e-mail, and direct mail for marketing campaigns. Our new pbSmartPostage solution recently reached its 10,000th customer. Many of the trends, which we noted in our fourth-quarter performance, were consistent with those which impacted our performance in the second half of the year. Despite improvement in our equipment sales in the first half of the year, persistent economic uncertainty worldwide resulted in some of our customers deferring new equipment purchases, and capital commitments during the second half of the year. However, our Connect+ digital mailing system continued to sell well on a global basis, and Production Mail installed additional Intellijet color printers, both in the US and Europe in the quarter.

We grew our Software revenue for the full-year, despite some deferred business at year-end, as a result of strong global demand for our communications management Software solutions. Our Mail Services employees did a remarkable job recovering from the fire in the beginning of the year, that destroyed our largest mail presorting site that was located in Dallas, Texas. In less than nine months, we located and outfitted a new site, and resumed revenue growth in our presort business in the fourth quarter. We are now positioned to continue the profitable growth trend in our presort business that we experienced before the fire.

We had outstanding free cash flow for the quarter of $215 million, and we generated $1.03 billion of free cash flow for the year. We're pleased to note, that because of our sound capital structure, our Board of Directors approved an increase in our quarterly dividend for the 30th consecutive year. As we reported last week, the dividend for the first quarter of 2012 is $0.375 per common share. Let me now turn it over to Mike for a discussion about our fourth-quarter and our full-year financial results.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you, Murray. Our revenue for the quarter was $1.3 billion, a decline of 6.5% when compared with the prior year. Currency this quarter had no impact on revenue. As Murray noted, revenue was adversely impacted this quarter by lower SMB sales, and some deferred Enterprise deals, especially in Production Mail and Software, as well as continued economic uncertainty. Breaking down our revenue for the quarter between US and non-US operations, US revenue declined by about 8%. Outside the US, revenue declined by 2% versus the prior year. Non-US operations now represent 33% of our total revenue.

Turning to adjusted earnings before interest and taxes, adjusted EBIT was $239 million for the quarter. Adjusted EBIT margin was 17.8%, which was a decrease of 20 basis points versus the prior year. Adjusted EBIT margin was affected this quarter by our planned investment in Volly. Excluding our investment in Volly, EBIT margin would have been 40 basis points higher, and would have improved 20 basis points versus the prior year. Adjusted EBIT was also impacted by the decline in our Software revenue this quarter, as well as the anticipated decline in our rentals and finance revenue streams. Favorable margins in Mail Services, International Mailing, and marketing services were somewhat offset by the margin impact in Software, and rental financing and supply streams in North America.

SG&A in the quarter declined by more than $20 million when compared with the prior year. SG&A continues to benefit from our ongoing productivity initiatives. On a segment basis, EBIT margins this quarter improved year-over-year in four of our seven business segments. Both of our SMB segment businesses improved their year-over-year EBIT margins for the fourth consecutive quarter, and our Mail Services and marketing services businesses also had improving EBIT margins. Production Mail, excluding the Volly investment, is the fifth segment to have a higher year-over-year EBIT margin. These improvements are primarily a result of our continued focus on increasing our operating efficiency, across all of our businesses. We continue to reap the benefits of the strategic transformation actions that we have taken since the second half of 2009. We've implemented actions that are enabling us to improve the way we go to market, interact with our customers, and develop new products. We will continue to put in place new processes and systems that will make our operations more streamlined, and our costs more variable, allowing us to continue to improve profitability by better leveraging future revenue growth.

When we add back depreciation and amortization to our adjusted EBIT, adjusted EBITDA for the quarter was $306 million, or $1.53 a share. Net interest expense in the quarter including financing interest was $49 million, a modest 2 -- a modest decrease of $2 million, when compared with the prior year. The average interest rate in the quarter was 4.61%, which was 5 basis points lower than the prior year. The effective tax rate for the quarter on adjusted earnings was actually a benefit of 5.4%, versus an effective tax rate of 33% last year. The change in the tax rate this quarter, was the result of reaching an agreement with the IRS on tax matters that related to years 2005 through 2008, and we included some other tax matters for the years 2001 through 2007. As a result during the quarter, we realized an income tax benefit of $74 million in continuing operations. Excluding the impact of the tax settlement with the IRS, our tax rate on adjusted earnings from continuing operations would have been 33.6% for the quarter.

Now let's turn to our earnings per share, which had a lot of different factors impacting it this quarter, and therefore, it might be helpful if you refer to the reconciliation table, we have on page 3 of our earnings release. Adjusted earnings per diluted share from continuing operations for the quarter was $0.97. If you look at our earnings on an underlying operational basis, consistent with our annual guidance presentation, you would include the tax benefit of $0.37 I noted earlier. On this basis, adjusted earnings per share this quarter was $0.61, which is comparable to the $0.66 we earned last year. As I noted earlier, adjusted earnings per share includes cost of about $0.02 per share this quarter for the planned investment in Volly. GAAP earnings per share -- per diluted share for the quarter quadrupled versus the prior year to $1.28.

There are three specific items causing the difference between adjusted earnings and GAAP earnings for the quarter. First, we incurred restructuring charges and asset impairments that totaled $0.31 per share. Of the $0.31, $0.28 per share represents restructuring charges related to our strategic transformation program. Asset impairments of $0.03 per share relate to a facility exit, and an impairment of intangible assets associated with the international operations of Pitney Bowes Management Services. Second, GAAP earnings per diluted share include a $0.41 per share non-cash goodwill impairment charge, related to the international operations of Pitney Bowes Management Services. The impairment reflects weaker than expected growth, changing print demand, and a weaker economic outlook for European markets. Third, GAAP earnings per share for the quarter included a net benefit of $1.04 in discontinued operations, due to resolution of tax issues, primarily related to our former capital services business. While these adjustments to earnings are significant, they've resulted in a more streamlined and flexible business model, and lower risk and uncertainties on our balance sheet.

In our third quarter 2011 announcement, we provided earnings guidance for 2011 on an adjusted basis, in a range of $2.30 to $2.35. This included the $0.08 per share tax benefit recognized in the third quarter. On that same basis, our adjusted earnings per share for the full-year 2011 was $2.34. As Murray noted, free cash flow was $215 million for the quarter, and was $1.03 billion for the year. In comparison to the prior year, free cash flow for the year benefited from higher net income and our US tax settlement, which positively impacted cash flow by about $100 million. During the quarter, we returned $74 million of cash to our shareholders in the form of dividends, and made $29 million of payments related to our restructuring program. For the year, we returned $300 million in cash to our common shareholders in the form of dividends, and we also repurchased $100 million of common stock. Additionally, we made $123 million contribution to our US pension plan, paid $107 million in restructuring payments, and reduced our debt by $50 million. We did not purchase common stock this quarter. As of the end of the quarter, we had no commercial paper outstanding, and we have no term debt coming due until October of this year. About 76% of our total debt is fixed rate, and 24% is floating rate.

Let me now update you on our strategic transformation program. In the fourth quarter, we identified and began implementing a number of new initiatives that we will complete in 2012. During the fourth quarter, the pretax restructuring and asset impairment charges related to our strategic transformation program were approximately $79 million, principally for severance and other exit costs. During the quarter, approximately 700 positions were eliminated across the Company, as we continue to create efficiencies, automate processes, and outsource non-core functions. Since the beginning of the program, we've reduced the workforce by approximately 14%. Our pretax charges this year related to the strategic transformation program were about $132 million, or about $0.46 per share. This exceeded our original guidance of $0.25 to $0.35 per share, as we were successful in identifying additional opportunities to streamline our operations and reduce costs. Therefore, we now estimate the run rate of net savings associated with our strategic transformation program will be in excess of $300 million. So that concludes my remarks. Now Murray will discuss our guidance, and we'll have some closing comments.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thanks, Mike. Now I'd like to turn to our guidance for 2012. We expect 2012 revenue, excluding the impacts of currency, to be in the range of plus or minus 2% in growth. Our outlook anticipates improving revenue trends versus last year, due in part to a number of initiatives designed to drive new growth opportunities. The guidance reflects a postal and economic environment that is not expected to improve, nor deteriorate significantly over the next 12 months. We anticipate gradual improvement in our SMB equipment sales in 2012, driven primarily by the positive outlook for sales of the Connect+ digital marketing system on a global basis, which will also result in fewer lease extensions by customers.

We have previously discussed how lower equipment sales in prior periods affect financing, rentals and supplies revenue streams. As a result, we expect declines in recurring revenue streams, but at a moderating rate as equipment sales improve. In 2012, we expect growth across our Enterprise businesses as well. We anticipate continued growth in Software revenue, due to increasing global demand for customer communications management Software solutions, such as those that manage data, target prospects, and use location to make offers more relevant. We also expect increased placements of Intellijet color printing systems in Production Mail, continued expansion and Mail Services, and benefits from a focus on legal, commercial, and government sectors in our Management Services business.

Based on our revenue expectations, our 2012 guidance for diluted earnings per share from continuing operations is in the range of $2.05 to $2.25. Included in these earnings expectations, are higher costs associated with our pension and benefits plans, increased investment in Volly, and a mix shift resulting from faster growing, yet relatively lower margin Enterprise businesses. We expect to generate free cash flow for 2012 in the range of $700 million to $800 million. We expect free cash flow will be lower in 2012 than in 2011, since we anticipate investing more cash in finance receivables, because of higher levels of equipment sales. We also do not anticipate the level of tax refunds that we received in 2011.

For over 90 years, we have helped our customers reduce their costs, and increase their efficiency of using mail to connect with their customers. Over the last few years, the way businesses and customers communicate has changed, and so have we. We have enhanced our operating efficiencies, added variability to our cost structure, and expanded our digital hybrid and Software offerings. We believe there are tremendous opportunities ahead to enrich the value of both physical and digital communication. In 2011, we continued to make progress in positioning ourselves to help our customers use physical, digital and hybrid communications to connect with their customers. We will continue to innovate, and invest to expand our capabilities to help our customers, provide their customers with offers they want, when they want it, through the channel of their choice. Our competitive advantage lies in our knowledge and expertise of physical communications, in conjunction with our growing digital and Software capabilities. There are exciting things ahead in 2012 and beyond, and we are committed to making them happen. Now we'll be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

And our first question will come from Chris Whitmore with Deutsche Bank. Go ahead please. Mr. Whitmore, is your phone on mute?

Chris Whitmore - *Deutsche Bank - Analyst*

Thank you very much. Sorry about that. I wanted to ask about revenue guidance and revenue expectations, specifically around equipment placements and some things you're doing to drive equipment. Can you give us some color around specific growth initiatives that you're driving to improve equipment trends? And can you talk about where we are, in the renewal cycle and lease cycles within your installed base? How does that look over the next 6 to 12 months?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Sure, Chris. I'll start, and then Mike can add more color to it. First of all, what we're seeing is -- we've seen Europe or international now run positive for the last three quarters. And we expect to see the rate of decline we experienced this year, to decline in 2012. Now, that will happen due to a number of things. First, the Connect+ product that continues to expand around the world, and we continue to place that here in the US. We will see that affect our lease renewal business by having less lease extensions. And as we've described before, a lease extension gets about 70% of the revenue that we get from a lease upgrade. So as that continues to rollout, we expect to see that benefit.

Then in addition to that, we continue to roll out of our digital services around our existing meter base, will also be a positive in expanding our reach into the meter base itself. At the same time, with Connect+, as you're aware, it uses color, and therefore ink will begin to become a better part of the growth going forward. So I think those are the general items. Also, inside of international, we've seen Canada now move to a net positive, so units are actually growing again. So as we look at the different parts of the world and where they are in the economic environment, the US is trailing some of the areas and slightly ahead of a few, but generally we expect to see that move in the positive direction.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. Chris, I would just add that, we did see even in the fourth quarter a greater use of cash for putting rental assets into the marketplace, which is in line with the expansion of the Connect+ placements.

Chris Whitmore - *Deutsche Bank - Analyst*

So if I look at the past four or five years of equipment sales on a rolling basis, it looks like in 2011 versus 2010, that number actually decelerated incrementally. Is that a good way to think about the value of the installed base, and the recurring revenue streams going forward, or is there something that would help firm up those recurring revenue streams?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. I think there's a couple things that affect the recurring revenue streams. Also, there's one other element that affects the equipment sales line, which is the Production Mail business. A good portion of their revenue goes through that equipment sale line as well. So you have to look at that on a year-over-year basis, in terms of its impact on that line all-in. But to your point, equipment sales is the starting point of the building of the asset base, and the finance receivable base, which drives financing income. And obviously the placement of rental supplies as Murray said, the high end with color is going to be an opportunity for a greater supply stream. So it is sort of the leading indicator for the future growth of those -- or improvement in those trends.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. And I wanted to ask about the impact of the fire on income, and how that flowed through the P&L? Can you help us out with that?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. In terms of the fire, as you know, it occurred in February. And for the bulk of the year, we were in the process of temporarily moving that volume to other locations. It affected our ability to qualify the mail for full discounts. Subsequently, we built out, obviously, incurred the cost to build out the new facility. We are now up and running. And in fact, saw the profitability improvement come back, as we've moved that mail back into the Dallas facility, which happens to be the highest volume facility in our network. So we anticipate that that's going to be a positive contributor going forward. We obviously, lost a lot of the income early in the year, and then we received some of the insurance benefits in the latter part of the year. So next year, we should have a much more normalized recognition of the income over the year.

Chris Whitmore - *Deutsche Bank - Analyst*

And did that come through in other income or in segment results?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's in other income.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Your next question will come from Shannon Cross with Cross Research. Please go ahead.

Shannon Cross - *Cross Research - Analyst*

Thank you very much. Good evening. My first question is with regard to cash flow expectations for 2012. Mike, maybe could you walk us through sort of the puts and takes? Because you're basically guiding down that income. It seems there'll be lower tax benefit, FR is going to shift, I guess -- will it still be a use of -- or source of cash -- just less of a source of cash? And then also what we should think about for pension funding for 2012? I'm just trying to figure out from the $1 billion that you did -- if 700, 800 is where we should be within that?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. Probably the shortcut to it, Shannon, is to look at what's the difference between '11 and '12. And the principal difference is the tax refunds that we received, and the higher income associated with the tax settlements in 2011. Effectively, I think the change in the finance receivables, which should be less of a source of cash, will probably be offset pretty much by reduced payments under the strategic transformation program, as we begin to wind down payments associated with that.

Shannon Cross - *Cross Research - Analyst*

Okay. And then from a pension standpoint, we needed 123, I think it was this year? What -- ?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. We will probably be less than that, maybe in the 85 to 100 range --

Shannon Cross - *Cross Research - Analyst*

Okay.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

-- as a potential contribution.

Shannon Cross - *Cross Research - Analyst*

Okay. And that's helpful, thank you. And can you talk a little bit about linearity during the quarter? And maybe again, because you're expecting a better revenue picture, as Chris was talking about, versus how fourth quarter looks. So within managed services, has there been an improvement in terms of contract signings? Within your other businesses, have you started to see financials, maybe at least return your calls, when they call to see if -- when you call to see if they want to buy some equipment? Just anything you can give from the color standpoint, both vertical as well as geographic?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. So on the Management Services side, you did hit the nail on the head, we did see improved written business at the end of the year, both in the US and in the international space. So that's one of the leading indicators, obviously, for that business in terms of improved revenue, and there is installation process that goes with the contracts. But we've put a focus in that business around three key verticals, and we're beginning to see some of the benefit of the actions that they've taken there. The aberrations in the fourth quarter from trend, were around the Software business, which we saw good strong growth through the first three quarters. In fact, for the full-year they were up 9% in revenue. We saw some delays of accounts at the end of the year, and I think timing on some things. We would expect that to be a growth contributor in 2012, so versus the fourth quarter -- more in line with what we have seen over the course of the full-year of 2011, certainly in the first three quarters of 2011. In terms of the mailing business, I think we touched on that in, terms of obviously Connect+ is an important product for us. As well as Murray mentioned, there's a number of digital products that have been launched over the course of 2011. And we're beginning to see some uptake on that, but they are recurring revenue type products, and low dollar value per unit, which you build over time. Not unlike what we did in the small and meter base. So we would look for that to contribute over a period of time.

Shannon Cross - *Cross Research - Analyst*

Okay.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Also, Shannon, DMT, which we also saw light in the fourth quarter, we saw significant delays, particularly in the financial sector, in the US. So that is -- as you're aware, that business tends to be a little lumpier, and is a little more financially sensitive, depending on what is happening in the market. But as we've said before, those deals are usually timing related, rather than whether they exist or not. It isn't that any of those deals were really lost, there is really just timing. And as we expressed in prior periods, they tend to bounce back -- fairly well. In Europe, our written business actually was up in the DMT space versus softer in the US in the fourth quarter. So we'd expect to start to see that becoming more like it -- historically has been, as we get through 2012.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

And just to clarify for anyone, DMT as we talk about it, is equivalent to the Production Mail segment as we recorded.

Shannon Cross - *Cross Research - Analyst*

I'm guessing, given the $26 billion settlement that they announced today, that the banks will need new equipment to send out all those restructured mortgages? (Laughter). My last question, just on Volly, you talked about increased investment in Volly, and clearly a lot of partners. I'm curious as to sort of when we'll see a push from a marketing standpoint or just -- kind of how -- what has been the responses? I'm sure you done marketing and that, just any ideas on sort of your thoughts on Volly progression through the year?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Sure. What we've been focused on, Shannon, is the signing of billers, and then the next phase is the implementation of those billers, so that their data can move forward. Because as we do -- look at the research, and this is why we've held back from going to the consumers with the product, is if a consumer gets a product, and there is no content, it is not considered valuable. And then when content appears, it's actually a negative and you have to resell it. So we are continuing to hold back until we get the content from the billers. We've announced earlier in the week that we're over 40 billers that we have signed. They have over 5,000 billers inside of those 40, so we need to now place the technology into those 40 sites. Those 40 sites now need to work with their 5,000 to get the feeds in. So we'll have one central feed from each of those sites, but we need to connect all the others. We would expect that somewhere in the mid year to third quarter, those connectors would be in place, along with the additions that we're expecting -- we're going to continue to grow that over the next six months. But we already -- if all of those were connected, that is already in the billions of pieces that could be moved digitally. So that is our drive, is to get the connectivity there, get the pipes in place, and then be able to go live later in the year, and consumers be able to get actual data when they turn the system on.

Shannon Cross - *Cross Research - Analyst*

Okay.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

So our investment will continue in building out the pipes, et cetera, and you really won't see us going to marketing, until we are close to the launch date.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. Thank you.

Operator

Our next question is from Ananda Baruah with Brean Murray. Go ahead, please.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Thanks guys for taking the question. Just going back to, I guess, sort of the linearity coming to the March quarter, can you give us some sense of how we should expect, I guess, sort of revenue to layer in through the year? It sounds like you've seen some firming in business, so should we maybe expect -- I don't know -- a little bit more in the March quarter, June quarter than typical? Or if not, can you give us some help there? Thanks.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes, I would say obviously we only give annual guidance, and don't sort of look at it on a quarterly basis, in terms of how we talk about our guidance. But what I would say is that clearly the recurring revenue will be affected by the equipment sales. So we would expect that as we've stated here, to be improving over the course of the year, but we need to see the sales improvement to drive the recurring revenue improvement. I think the other businesses, clearly looking at the opportunities -- we've like everyone saw, a challenging economic environment, some verticals can be affected more than others. But we believe that the -- particularly the Enterprise businesses, we should expect to see growth out of those, in the course of 2012.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Okay. Got it. So I guess that sort of seems like you're saying maybe -- I know you don't give guidance but -- I mean quarterly guidance, but softer seasonality for the March quarter than you typically see? I mean, that sort of sounds like what you're saying.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

No. We're just not going to go there, on seasonality. (Laughter). It's obviously, one month into the year so far.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. Okay. And then can you -- Murray or Mike, just share with us, are there any metrics from, I guess, the Smart-based solution that you can provide, sort of illustrate what kind so, I guess, traction you have seen so far? I think -- I don't know if it was Mike or Murray, but one of you mentioned -- I think Murray mentioned there was good momentum so far. Can you give us like any thing to help us there?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

So we will be starting to be more aggressive in marketing, as we go through 2012. But even with -- we wanted to be a little conservative as we launched the product, and moved into cloud-based services. But we have now seen over 10,000 users come on board with the SmartPostage. We've seen connections now dial up into well over 1,000 marketers, more than three times that. Smart codes in the same area. So we're starting to see traction, both in our customer base for enhancing how they reach their customers, and new customers. So I think the momentum is actually starting to move there. And as we begin to market that, across our existing customer base, and bundle those things together. So we've talked about sort of triple play type offers. We can provide our existing customer base or new customers, multiple new services at very attractive rates, rather than the stand-alone. So I'm sure you're familiar with the way, cable and telephone does that.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

So that's the way we'll be taking it to market -- and we'll be looking in 2012 to reach a high percentage of our install base with those products.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. That's helpful. And I guess, you have been shipping -- is it Connect+ has been five quarters now, you've been shipping Connect+?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's -- since mid 2010 in the US. And then, more recently across a number of other markets, particularly in Europe, Canada. And we're yet to launch in France and Germany, which have a longer tail for approval process and all.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. Can you give us any sense of, how much of the installed base is on Connect+ -- and I guess, that's the install base that eligible for the Smart solutions, correct?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

No. The Smart solutions actually can go across the entire base, but are probably even more applicable to the very small customer base. The way Connect+ works is, it has an interface that actually allows access to a number of applications that are unique to high volume mailers, as well as the pbSmart family of products.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

If you think about the life cycle of leases as around five years, and the products been out just over a year, that gives you an idea of what is available for -- in the coming years for transition.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. Got it. That's helpful. And, Mike, I guess on -- just on the operating margins assumptions that sort of implied in the guidance. So it sounds like you're guiding margins down, sort of more than revenue. I guess the low end of the operating margin guidance, is sort of lower than the 2% down, which is a low end of the revenue guidance. And if you're not doing that, please, please correct me. But I guess the forces that you mentioned -- the different levers on there that are incremental are sort of -- it sounds like increased Volly investments from last year. Can you give us what that is implied in the guidance this year, and then what the increase in pension cost is, and what the impact from the Enterprise mix would be?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. So if you take the midpoint of our ranges, just as a way to compare, the key drivers of the difference, I would say between our earnings this year on an adjusted basis, and what's proposed next year is principally, the pension and the incremental Volly investment. So pension is probably in the range of $0.04 to $0.05, and the Volly investment could be a broader range than that. It could be from $0.03 to $0.07 in that range potentially. And that really goes back to Shannon's question of, the timing of when we go to the market, how much marketing spend against that. So we've sort of plan for a wider range there, until we see exactly how we go to market. But the biggest variable on that would be marketing expense. So that puts you at, more or less a push. And the other drivers in there are obviously, we anticipate faster growth in the Enterprise businesses than the SMB business, which has on average a lower margin profile. And then we have the benefits from our transformation program that are mitigating that. So to give you an idea of about how that works out.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

And the $300 million level, or greater than the $300 million run rate, ultimately, when do you expect to be at that run rate? Whatever it is you guys envision?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

We will be I think, at that run rate, throughout 2012. And obviously, as we noted, we've been implementing some additional programs that we accrued for at the end of 2011. We don't anticipate any significant charges in 2012 related to transformation. We are really shifting our focus, one, to finishing what's in flight. And two, to a continuous improvement process, that we look to do with reinvesting some of the savings that we've generated.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Thanks. I have a last one. I know I've asked a bunch here. So I apologize, but can you give us, I guess, an early take on what the Volly business model might look like, in terms of operating margins, structure, if you -- I don't know if you look at it kind of Phase 1, and then at maturity and -- I don't know -- however, you would care to -- care to characterize if for us? And I guess, any sense of, what the profitability could like -- look like at some point would be helpful?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. Given the early stage of it, obviously the business model is going to evolve as we roll it out, and understand how consumers respond to it. The main elements of revenue in the near-term, is obviously providing the digital delivery for our billing customers, at a much reduced cost for them. But obviously we participate in a bigger part of the transaction. So that would be the core revenue source. Ultimately, this is a software-based model, or web-based model, that should have the leverage of that type of business. But that comes with, obviously, the significant user base.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. And any idea, I mean, any sense of how many users you need, or what volume you need, or anything like that to hit that?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's really early stages today to have that kind of thought, because there's a lot of variables around how many bills per consumer, the acquisition costs and all of that. So as we evolve the model, we'll obviously give some more clarity around it.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Okay. Thanks. Thanks a lot.

Operator

And next we have Julio Quinteros with Goldman Sachs. Go ahead, please.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Just a couple of housekeeping questions. On the restructuring payments for 2012, did you size what you expected for total restructuring payments there?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

In terms of cash out, it should be something less than $100 million. Probably, I would say in the $70 million to $100 million -- or I'm sorry, $50 million to $75 million range.

Julio Quinteros - *Goldman Sachs - Analyst*

50 to 75. Okay. And I heard you make a quick comment on the pension, but I just want to understand the pension assumption that you are currently running, in terms of returns and discount rates. And then the P&L impact -- I think you sized it -- I just didn't catch the number there.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes, in terms of the P&L impact for 2012, we think it will be about $0.04 to $0.05. The biggest driver of that is the discount rate, that's come down 65 basis points to 495. We also had a slight reduction of about 25 basis points on the return assumption, which is at 7.75.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. And so that's one part of the higher expenses. And then the other part is, some investments that you are making for Volly. But did you size what you expected to be, the sort of incremental expenses for Volly, as you went into 2012?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. I gave a relatively wide range, because the big variable on it is, when we go to the consumer market, and what exactly the marketing spend would be versus our customer acquisition strategy. So I gave a range of, it's probably in the neighborhood of $0.03 to $0.07.

Julio Quinteros - *Goldman Sachs - Analyst*

And then, maybe just to characterize or help us understand the demand backdrop -- clearly, the minus 2 to the plus 2 range, if you had to sort of parse on one side the pieces that you actually had growing, or expected to grow this year, versus the pieces that are actually still expected to be a drag, is there two or three major things that we could sort of take away as positive drivers for growth, versus the continued negative side that would be the more -- the pieces that are actually still expected to be in decline for 2012?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. I think the key driver will be, higher growth in the Enterprise side of the business. That's the key drivers in that would likely be Software, Production Mail, and with Mail Services returning to a more steady state growth rate for that business.

Julio Quinteros - *Goldman Sachs - Analyst*

And what about the drag?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

On the drag side, it's principally going to be led by the recurring streams on the SMB side, which we need to grow the sales side, to positively impact those.

Julio Quinteros - *Goldman Sachs - Analyst*

But you have a product cycle that's helping, but underneath that -- is it more new business formations, or something else that would need to happen, in order to turn that to --

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Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

That's clearly part of it. And then obviously the take rate in some of the new digital products is the other potential driver for it. But clearly, we still haven't seen the level of small business formations that we typically see a benefit out of, in our low end business.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. Great. Thanks. Good luck.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you.

Operator

Your next question is from Alex Latushkin, Manikay Partners. Go ahead, please.

Alex Latushkin - *Manikay Partners - Analyst*

Hi, thanks for taking the call. Just a quick question. Competition, just trying to get a better sense of kind of where you are with Neopost. It seemed like their recent result was a little stronger. So just trying to get a sense of what competition looks like. And then just a quick question on earnings quality, it looked like free cash flow was down 25% year-over-year, and cash from operations down 40%. Just trying to get a little more color on what's going on there, relative to the decline in EBIT? Thanks.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

If you're asking cash flow quarter to quarter, I believe, third to fourth?

Alex Latushkin - *Manikay Partners - Analyst*

Sorry. Year-over-year.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Year-over-year?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

I'll add to the first part, and then you can come back to that one.

Alex Latushkin - *Manikay Partners - Analyst*

Thanks.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

On the competitive side, we are seeing basically stable in -- relatively stable in North America, from share point of view. I think you need to look at our results across the entirety of the business. There's a lot of our business, that the other traditional meter companies are not in. And also, the change in some of the business models, among some of the other people in the industry. But on units, we're staying relatively consistent. On market share in Europe, and Asia, we've been tending on market share growth. So we have got the carry-forward on our stream revenue from a number of years ago, which has been the biggest negative. And that has been declining as to the amount of negative headwind that we've absorbed mainly from our financial services, and our stream revenues of rental and supplies. So I think you'll see that stabilizing more, as we go into '12 and forward. And then, Mike on the cash flow?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. On the cash flow, the whole difference is due to the fact that in the third quarter, the IRS allowed companies to defer their third quarter tax payments into the fourth quarter, because of Hurricane Irene. And that makes up the whole difference. We made double tax payment in the fourth quarter this year, versus last year, had just fourth quarter payment.

Alex Latushkin - *Manikay Partners - Analyst*

Makes sense. Thanks. Appreciate it.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thank you.

Operator

Thank you. We have a follow-up from Shannon Cross with Cross Research. Go ahead, please.

Shannon Cross - *Cross Research - Analyst*

Thank you. I was -- just wanted to talk about your transformational program that you had in place. Clearly -- you're pretty much through it, you're very successful at it. How do you sort of think about future programs like this -- and I guess, I know internally you've kind of change the way you look at costs? So I'm kind of curious how we should think about that, and your thoughts on sort of restructuring going forward?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. What's been really critical about this program is not just taking costs out, of but actually reinvesting into the business. So we've probably made nearly $200 million of investments back into the business, particularly around infrastructure items, creating more shared services, leveraging outsourcing those types of things. We've made our cost structure a lot more variable. And we have the opportunity to continue to gain some benefits and efficiencies from the systems that we're putting in place. And they range anywhere from sales automation, to service force dispatch in real-time. And a number of other infrastructure systems around IT, facilities reductions and all that have given us a lot more flexibility in the business. And enable us to move resources from slower growth businesses to higher growth businesses, and gain some efficiencies and things around product management in product development, around product hierarchy. So it's been a very comprehensive program, in terms of not just reducing costs, but changing the way we do business.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

I think also, Shannon, as we've been focused for the last number of years, it's been around the transformation has been our primary focus. And it's very difficult to have a primary focus on transformation of the business, and have the business highly focused on revenue growth, concurrently. As we move to a more steady state, where we have a new way of life, the focus on transformation now, is transformation on the revenue side. So as we go forward, that's where our focus now will switch to, from the original transformation focus.

Shannon Cross - *Cross Research - Analyst*

And how do we think about -- you're definitely more variable. Any way of sort of boxing how big your -- what percentage of your costs are variable at this point, both on the COGS as well as on the SG&A side?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's really hard to give a single answer to that, because as you would appreciate it, it really varies from business. We have higher fixed costs in the Software business around R&D, and channel costs, and then much more variable costs in some of our other businesses. Management Services is a good example of where we've done a lot to variabilize our labor force. So again, it's hard to put one percentage on it. But I think the results are that even in a down revenue quarter, we've seen effectively five of our business units show margin improvement, and that's what we're focused on a on a business by business basis.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. Thanks.

Operator

(Operator Instructions).

We have no one else queuing up, so please go ahead with any closing remarks.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

All right. Thank you all for all of your questions. And I'd just like to summarize with the following, that we really are pleased that in 2011, we achieved our original earnings objective. We exceeded our cash flow target with over $1 billion in free cash flow. We continued to successfully execute on our strategic transformation program, exceeding our expectations with an estimated run rate of net savings in excess of $300 million. And we achieved EBIT margin improvement on our adjusted results. In 2012, we'll continue to build on our foundation for long-term growth and value creation. We expect growth across all of our Enterprise businesses, and we expect gradual improvement in equipment sales, as well as improvement in the recurring revenue streams in our SMB segment. Our focus this year is executing on growth strategies, expanding our CCM capabilities, and continuously improving our customer processes, and our operating efficiencies. Thank you, and have a great evening.

Operator

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