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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Third Quarter 2023 Earnings Conference Call. (Operator Instructions) Today's call is also being recorded. (Operator Instructions) I would now like to introduce participants on today's conference call, Mr. Jason Dies, Interim Chief Executive Officer; Ms. Ana Maria Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Philip Landler, Vice President, Investor Relations and Global Strategy. Mr. Landler will now begin the call with a safe harbor overview.

Philip Landler *Pitney Bowes Inc. - VP, IR & Global Strategy*

Good morning. I'm Philip Landler. Thank you for joining us. I'll be managing the Pitney Bowes Investor Relations program going forward, and will be partnering with Alex Brown, who many of you know from prior earnings calls. Part of my duties include covering the safe harbor information for these calls. So let me briefly cover that.

Included in today's presentation are forward-looking statements about our future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections.

More information about these risks and uncertainties can be found in our earnings press release, our 2022 Form 10-K, annual report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations. Please keep in mind we do not undertake any obligation to update forward-looking statements as a result of new information or developments.

Also, for non-GAAP measures that are used in the press release or discussed in our presentation materials, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release. Finally, we have provided a slide presentation and spreadsheet with historical segment information on our website.

And now I'd like to turn the call over to our Interim CEO, Jason Dies.

Jason C. Dies *Pitney Bowes Inc. - Interim CEO*

Good morning, everyone. I want to begin by thanking you for your ongoing investment in Pitney Bowes. As you will hear today, my portion of these calls will be just as focused on our path forward as the preceding quarter's results. Since today is my first call, I'm going to take a few minutes to cover 3 areas.

First, a brief overview of my background. Second, context on my leadership style. And lastly, a high-level summary of what I've been focused on since stepping into my new role on October 2.

With respect to my background, I joined Pitney Bowes in 2015 after 2 decades in roles of increasing responsibility at IBM. Spending the past 8 years in various leadership positions here at Pitney Bowes has equipped me with a strong understanding of our opportunities, challenges, clients and partners. I spent my initial years overseeing our Production Mail business, which we divested in April 2018.

Following that, I led a successful transformation of our SendTech segment, resulting in strong revenue, cash flow and growth opportunities in shipping. I subsequently began also overseeing our Presort segment. So I've led the company's 2 profit and cash flow drivers. This experience as well as my working relationships with the leaders of our global e-commerce segment and functional groups is enabling me to hit the ground running in my new role.

When it comes to leadership style, I believe in maintaining a culture that prioritizes accountability and outcomes. I expect teams to be highly adaptable and proactive, especially when our clients' needs or the broader operating environment require us to course correct.

Fortunately, we have a number of dedicated, passionate and very talented individuals who embody these operating principles. The positive responses I'm getting from our teams are very encouraging. It reflects the fact that change is in our DNA at Pitney Bowes, which is why we are a 103-year-old company that has always evolved with the times.

In my first 30 days, I've been conducting a review of our business segments and corporate functions. This means working with our teams to take a fresh look at our cost structures, infrastructure and resources, operating markets and opportunities.

The primary objectives of this discovery phase are to identify near-term value drivers and establish the pillars of our next long-term strategic road map. Importantly, we're going to capitalize on immediate opportunities even while planning for the future. It's still very early in the process, but I can shed some light on preliminary observations and areas of opportunity.

Our SendTech strategy is proving effective, as evidenced by the segment's strong EBIT and margin expansion last quarter. Our cost management efforts, product refresh and growth in shipping position the segment to continue to transform and ideally increase its revenues over the long term. For these reasons, we believe SendTech can be a sustained source of meaningful value.

Our Presort strategy is also driving the strong results we have anticipated, including top line growth and EBIT growth again last quarter. We expect to sustain this momentum. Like with SendTech, Presort can be a cornerstone of Pitney Bowes in an ongoing source of significant value.

With respect to GEC, our team has built an extremely valuable foundation and succeeded in driving domestic parcel growth. However, we are focused on actions with the aim of not continuing to incur the level of losses we've been reporting. As we continue prioritizing clients and making sure we deliver during peak season, our efforts are centered on taking action to realize the segment's potential.

As far as cost reduction and restructuring opportunities, we're ahead of schedule on hitting our previously stated target of $75 million of annualized expense savings by the end of 2024. I was actively involved in this initiative over the course of the year. And based on that progress, as well as additional analysis we've done in recent weeks, we are increasing our target for annualized expense savings by $40 million, bringing us to a new overall target of approximately $115 million.

Throughout the coming weeks and months, we're going to continue to leave no stone unturned. I look forward to continuing to share updates on our near-term actions and long-term planning. And in the same spirit, we welcome constructive feedback from you.

In closing, I want to be clear that Pitney Bowes is a strong company with great businesses, and we are all committed to streamlining the organization and improving performance. Nobody here is satisfied with our recent financial results. We have a valuable foundation that is anchored by 2 profitable cash-generative segments, growth opportunities across all of our businesses and a motivated and talented employee base.

This is a foundation we can leverage to ultimately deliver much stronger results in the future.

Let me now turn it over to Ana to discuss our results and financials in detail.

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

Thank you, Jason, and good morning, everyone. Before I begin my financial review, I'll note that the year-over-year revenue information will be discussed on a comparable basis, which, as previously discussed, adjust for the impact of currency and a revenue presentation change for our digital services that was implemented beginning fourth quarter last year. This revenue presentation change primarily affects global e-commerce revenues, and, to a lesser extent, SendTech. The change does not affect profitability.

Also, unless otherwise noted, I will speak to other items such as EBIT, EBITDA and EPS on an adjusted basis. Total revenue for the quarter was $784 million, a decline of 1% versus prior year. Adjusted EBITDA grew $6 million year-over-year to $84 million in the quarter. Adjusted EBIT grew $5 million to $43 million in the quarter. This EBIT growth was offset by higher interest expense resulting in adjusted EPS of $0.00 in the quarter.

Turning to cash flow. GAAP cash from operating activities was $25 million and free cash flow of $15 million. Free cash flow is up in the quarter and year-to-date versus prior year.

Let's dive into our 3 business segments. I'll start with SendTech. SendTech reported revenues of $318 million in the quarter, down 3% compared to prior year. EBIT margin expanded 200 basis points, driven by improved productivity.

Let's start with revenue. We continue to make progress on our product refresh and are now 68% through the USPS technology migration, which is up 20 percentage points from prior year. Our success in placing advanced compliant equipment puts us in a different stage of our product life cycle. We will increasingly have more fixed-term lease renewals and less new lease opportunities.

From a financial perspective, this shift drove equipment sales down 8% and contributed to increasing financing revenue by 1% compared to prior year. This is a net positive to cash flow. Support service revenue declined in line with the overall mail market and as a result of exiting certain unprofitable contracts to service equipment of third parties.

Shipping continues to be a growth area for SendTech. In the quarter, total shipping-related revenue grew 6% over prior year and now comprises over 12% of total SendTech revenue. We remain very encouraged by the traction our shipping products are receiving, especially with enterprise clients.

Despite top line pressures, we expanded gross profit margin by 300 basis points. We continue to lower the cost of equipment manufacturing and freight, which contributed to the year-over-year margin expansion. Our commitment to drive efficiency in our sales and customer service operations remains a top priority. We continue to modernize SMB client processes, driving a 25% year-over-year decline in total customer service calls and increasing our customer satisfaction scores to 86% in North America.

The cost of goods sold and operating expense improvement that we are pursuing drove adjusted segment EBIT growth of 3% over prior year, and we are redoubling our attention on simplifying the business and optimizing execution.

I'll spend a moment on the performance of financial services inside of SendTech. Financial Services remains an important component of the business, providing valuable client solutions and steady returns. We are executing on our previously announced program where our bank will participate in the financing of select captive lease receivables and initiatives that will be good for the bank and the enterprise overall.

The health and quality of our portfolio continues to demonstrate the durability of our offerings. Finance receivables remained steady at $1.2 billion. Write-offs continued to be low and roughly flat quarter-over-quarter.

Next, let's turn to Presort, which had another outstanding quarter. Presort generated revenue of $152 million in the quarter, up 5% from prior year. Total sortation volume declined 5% to 3.6 billion pieces, but revenue per piece expansion more than offset volume decline. Growth in higher-yielding mail classes contributed to the increased revenue per piece.

Adjusted segment EBIT for the quarter was $29 million, an increase of 42% compared to last year. Adjusted segment EBIT margin also expanded almost 500 basis points to 19%. The 3 main sources of margin improvement were: higher revenue per piece, lower unit transportation cost and most importantly, continued labor productivity gains from our investment in new automation.

For example, over the past 2 years, we have refreshed almost 20% of our sorter fleet, which contributed to an 8% year-over-year labor productivity improvement as measured by pieces fed per labor hour. We expect this positive momentum to carry into the fourth quarter.

Let's shift to global e-commerce. Segment revenues were $313 million, down 1% versus prior year. Adjusted segment EBIT was a loss of $42 million compared to a loss of $35 million last year. Year-over-year declines on both the top and bottom line were primarily driven by the change in 2 large cross-border client relationships that occurred earlier this year.

In total, cross-border revenue declined $57 million and gross profit of $13 million versus prior year. Cross-border stabilized quarter-over-quarter. However, it will remain a drag on a year-over-year comparison through first quarter 2024.

Turning to domestic parcel. We processed 51 million packages in the quarter, representing growth of 38% year-over-year. We continue to gain market share, driven by the value of our offerings, our strong service levels and high client satisfaction. This translated to 29% revenue growth in the quarter. The challenging macro environment, market overcapacity and parcel mix continue to put downward pressure on pricing, which offset the continued improvement in unit cost economics.

In addition, as part of our continuing focus on enhancing and optimizing our capacity, we completed the previously announced facility consolidation initiative by closing 4 older and less automated sites during the quarter. These actions resulted in $4 million of higher onetime costs in the quarter and will drive operating benefits moving forward.

Overall, on a year-over-year basis, domestic parcel gross margin decreased by 50 basis points.

Finally, operating expense declined versus both prior year and quarter periods due primarily to the cost reduction actions taken over the past 2 quarters. We expect this to be a re-occurring benefit moving forward. Looking ahead, our team is well prepared for holiday peak. The investments we have made in automation, technology and our network over the past couple of years enable us to more efficiently handle volume fluctuations associated with peak and deliver for our clients.

Moving on to restructuring. We continue to make meaningful progress on our plan announced during first quarter earnings. During the quarter, we have recorded restructuring-related charges of $17 million and made $12 million in cash payments. As Jason mentioned, we are tracking ahead of plan and are now expanding the program savings by $40 million. This brings the total annualized savings from this program to $75 million to $85 million by the end of 2024.

We will continue to provide progress updates on our current restructuring plan.

Moving to capital structure. In July, we raised $275 million from a private placement offering. Net proceeds were used to redeem the remaining portion of our 2024 notes and $30 million of the term loan A. Our next debt maturity is in 2026.

Finally, we are updating our guidance. Given our global e-commerce year-to-date performance and continued market headwinds, we now expect the company's full year revenue to decline between 3% and 4% on a comparable basis and full year adjusted EBIT margins to remain relatively flat versus prior year.

In closing, despite continued challenges in global e-commerce, our consolidated EBIT grew year-over-year in the quarter, driven by solid performance from Presort and SendTech. We remain very encouraged by the results from both of these units, and our global e-commerce team is working hard to realize the potential of our growing volumes, strong service levels, scalable network and competitive capabilities.

In addition, we have made meaningful progress on our cost reduction initiatives and our expanded restructuring plan will help drive improved margins going forward.

Let me pass the call back to Jason for some additional remarks.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Before getting to the Q&A portion of the call, I want to take a final opportunity to thank Marc Lautenbach for his many years of commitment and dedication to Pitney Bowes. Everyone at PB wishes Marc the very best.

Now we can open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll first go to Kartik Mehta with Northcoast Research.

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

Jason, as you look at the e-commerce business and kind of dive into the business, what big picture changes do you anticipate being able to make to get the business to profitability and kind of up to your expectations?

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes, Kartik, thanks for the question. Look, let me start off by saying, we recognize that the level of losses that we've been reporting in that segment are not sustainable. That said, we are taking efforts to really look at how do we make short-term change and short-term improvements that can help us realize the full potential of this segment. I'll let Ana talk a little bit about some of the short-term improvements she's seeing, and then I'll come back at the end.

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

Yes. The first thing I'll mention is, as we commented in the remarks, we're doing a lot around restructuring. And we closed down 4 sites that were older technology and had adjacent sites with more modern technology and sufficient capacity creating an opportunity to better serve our clients without disruption. We are looking at our cost overhead and infrastructure and leaving no stone unturned.

In addition to that, our unit economics, which I pointed to are improving. They're improving from 2 sources. They're improving from our ability to better route our transportation, make our network more efficient but also from the volume, productivity also gets impacted by the growth. So again, the team is working really hard to look at every opportunity, and we'll continue to do so.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. And I'd just say, Ana said it well, there are multiple pieces here. The first is cost actions that we are taking both for the short term and for the medium term. Ana also touched on the fact that we have opportunity to continue to improve our rate per piece, which will obviously drive better economics.

And then it's pretty clear that we are seeing significant growth in volumes in the domestic parcel business, which if you think about the way that clients are reacting to our offerings, it's an extremely positive sign for the business going forward. Clients clearly see value in what we're bringing to the table.

So a lot of short-term work clearly on how do we continue to go after cost and the in-period economics. But the client confidence in our offering and in our ability to deliver is certainly something I look forward to with a positive note.

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

And then in the industry, what are you seeing in terms of pricing? And what do you anticipate for the holiday season?

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. So I think a couple of things. So you saw a varied reaction on different companies' approaches to peak pricing activity. So first off, that created a little bit of confusion, I think, in the market, it created some uncertainty.

You've seen in other announcements already this earnings season that there is clear market overcapacity right now, which is creating some significant pricing pressures.

That said, we clearly have some opportunity to go after pricing as a lever that we can use going forward. But let's be clear, I don't want anyone to be confused that we are careful and thoughtful about the volumes that we're bringing in to improve our profit margin and to improve our fixed cost leverage.

But that said, we are in a very competitive environment. You've heard that in the other forms. And I will tell you that one thing that we watch very carefully is our win rate, and that has been fairly consistent over the past few quarters.

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

I really appreciate it.

Operator

Next we can go to Anthony Lebiedzinski with Sidoti & Company.

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

And welcome Jason and Phil. So first, it's nice to see Presort and SendTech continuing their solid performance. Ana, I know you talked about the automation efforts helping, I think, specifically Presort, but it's an area that you guys talked about this for a while, so it's not necessarily new.

But just wondering, are there any additional opportunities to further improve with automation? Or do you think you're kind of tapped out with those efforts?

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

Thanks for the question, Anthony. Productivity is a never-ending game. I mean, this is really -- Presort is the game of pennies, and I'll tell you, the team is very focused. They're tackling right now a lot of optimization in transportation. And we did sorter refreshes. They're working on conveyors as well. So, the rate and pace will vary over time, but I do expect continued productivity as we explore new automation and technologies as well.

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

That's great to hear. And as far as the GEC, so I don't know if it's necessarily easy to do this. But if we were to exclude the cross-border, which seems to be the biggest headwind within GEC. If we were to hypothetically exclude that, with the rest of the business for GEC, would that be better in terms of profitability versus last year or the same or worse? Can you give us maybe some sense in regards to that?

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

Sure. So as I mentioned, cross-border is really a headwind when you compare year-on-year. And when you look at it more quarter-over-quarter, it gives you a better representation of the true performance.

And I'll mention 2 things around that. The business is operating, I would say, kind of flattish when you look at it maybe slightly down quarter-over-quarter, excluding cross-border. And I did mention we did some investments around those site closures that affected our profitability. But those are investments that will pay fruits into the future.

So I anticipate progress from the cost actions. We're seeing our operating expenses down year-over-year and quarter-over-quarter, and that's in addition to the improvements we're doing in the cost of goods sold around the optimization of the network, and the warehousing that I mentioned.

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

Got it. Okay. And then in terms of the expanded restructuring as far as that additional $40 million, where is that -- where are those savings coming from? Just curious to get more details.

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

Sure. So I'll give you a sense. Overall, we are looking at our entire expense base. We'll see about half of them come from cost of goods sold and productivity-related things and probably about the other half from some of our overhead and reprioritizing programs and other activities that we do.

As you know, it's a sensitive topic. We're working through it internally with our employee base, and I'll end it there.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. I'll just jump in on top of that. One of the things we're trying to do as part of this cost effort is we're really trying to be smart in how we go about it, right? So one of the themes that I've been working with the teams on is how do we take complexity out of the business, how do we make things more simple.

And so in addition to just taking out cost for cost sake, which we need to do, it's really important that we're doing it in a way that's going to make the business stronger ultimately as we go forward. And that's been one of the focus areas that we've been working on as a leadership team over the past 30 days is how do we do that in a smarter way that's going to keep the cost out for the long term and allow us to be more effective as we go forward in the market.

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

Understood. Thank you very much and best of luck.

Operator

And next, we'll go to Peter Sakon with CreditSights.

Peter Sakon ***CreditSights - Analyst***

Just a follow-up on the cost-cutting question. Can you break out by segment this cost saving the $115 million? You said half is overhead. So is it half coming from unallocated corporate overhead?

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

Listen, we're in the process of working through our specifics. I will tell you a lot of that will be felt in the business units, and we're already feeling it. A lot of what you saw on the margin expansion in SendTech and Presort is a testament to the restructuring that we started earlier in the year and the cost actions we've taken throughout. The vast majority of this will go to the segments, and you should see an improved margin as we move forward.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. I'll just add in again. From my perspective, I want to see the cost cuts coming from all parts of the business. That said, it is really important that the business units who ultimately fund and need the resources, make sure that they're making the right decisions for what do they need to run and execute on the business.

So as part of this work we've done over the last 30 days to go after the incremental cost opportunity. We've really been focused on working with the business unit leaders, having them meet with each of the functional leaders across the shared services and really engaging in some very productive discussions on what do we need to run the business, how can we think about processes differently? And how do we make sure that at the end of the day, the business units have what they need to be effective in the markets?

Peter Sakon ***CreditSights - Analyst***

Can you tell us a little bit more about Presort's profitability improvement is great along with EBITDA improvement, driven by the higher price that the Postal Service is charging because obviously, you're in the 20% or you save the government 20%. If you could just walk me through a little bit better context. I'd appreciate it.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. Let me start with that. I mean, first and foremost, I would say that the Presort team has done a terrific job around productivity. You're really starting to see them execute very well on what they do best, which is driving productivity across their sites and across the business. So some of the benefit is clearly coming from that. They've also done a very good job of bringing additional volumes into their network to replace the natural decline of the Mailing business. So that's been supportive of that benefit as well.

And then third, to your point, there was certainly a USPS cost change for us that benefited us. But at the end of the day, I want to emphasize that the reason that the USPS is giving the benefit of that work share discount is because they see the value that the Presort business brings to the table. It's not something that they're doing just out of their heart, right? Our teams really do drive value for the USPS, and you see that in the reflected changes in the work share discounts.

Peter Sakon ***CreditSights - Analyst***

Great. Lastly, can you disclose the covenant EBITDA and leverage?

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

We have not done that in the past. We may be follow-up with the IR team after the call and take you through some more specifics later.

Peter Sakon ***CreditSights - Analyst***

Okay. And on to the market in the non-deal road show. So the vast majority of the enterprise value of the company is debt. So I think it would be helpful for credit investors who review the company. And you can see the we estimate a significant covenant flexibility. So I think it will be helpful to the company.

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

As I mentioned, we'll take it off-line and follow up with more specifics. We absolutely welcome the feedback and if there's more disclosures, we should be doing, we'll take that into consideration going forward.

Operator

(Operator Instructions) Next, we'll go to Matt Swope with Baird.

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

On global e-commerce, Jason, I know maybe it's not a fair question given your recent change in status. But is there any plan or thought to do something a little more drastic here rather than talking about ways things be a little more profitable, but either shutting the business, selling the business, doing -- taking a more drastic step?

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Look, I mean, to be fair, Matt, I'm not going to comment on any specific portfolio actions. What I will say is we continue to believe that there is an extremely valuable foundation in that business, especially on the domestic parcel side. We are clearly not satisfied with the financial performance that we've been delivering on that.

And as I said, we are very focused on taking short-term actions to try to improve the profitability in the near term. We have a number of efforts underway as well to look at long-term opportunity to change the trajectory of that business. Everything from looking again, as I said before, at opportunity to take pricing in the market potentially to thinking about how we drive our network differently.

But at the end of the day, I keep coming back to our goal is to maximize the value of that business going forward. And I think that we are doing everything that we should be doing at the moment to ensure that, that is the outcome that we're going to drive.

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

Okay. No, that's fair. I just wonder if strategic alternatives should be more of a part of that conversation as well, at least the way you presented to us. But again, maybe that's going on behind the scenes.

Can I ask a more specific question on GEC. Just around the holiday season, there have been some issues in the past on fixed versus variable labor. How are you thinking about that going into this holiday season?

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

Yes. Let me take that. We've been working very hard preparing for peak. And I'll start by saying it's been very humbling for the entire team, what we've gone through the past few holiday seasons here.

The second thing I'll say is we're very much of a learning team. So we're absolutely taking all those learnings. And we have the same people, so we make sure we're more prepared.

I'll share with you an example. In the past, and we continue to do is we get the forecast from our clients. And we always staff towards those forecasts. We have now developed in the network, our ability to flex up easier than to flex down. So now we're planning slightly below, and we will flex up if we see the volumes.

So our ability in our -- inside of our processes to flex for volumes is much greater. And we've developed that again throughout the years, and we'll be putting all of that in practice now. So one never knows, peak seasons always throws curveballs, but the team is as prepared as they've ever been.

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

That's helpful. And as far as getting labor to flex up, is that labor force readily available?

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

Actually, we have a much better mix of our temp to perm, temporary to permanent ratio in our labor force. And when you distribute that across the sites and the current market conditions of the labor market, which are not the same as they were over the past 2 peak holiday seasons, we feel very strongly and very well prepared.

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

Got it. And then on SendTech, Ana, you have some language in the release about fewer new lease opportunities but you expect that to be generally offset by an increase in fixed term lease extensions. Can you help us understand how that works from a revenue perspective? And maybe if you could work in what the interest rate environment does to help you on that front?

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

Sure. It's a great question. So let me start with where we are in our product life cycle. As you know, about 5 years ago was when the Send-Pro C and some of the new technology that we started rolling out for the compliance that we need to meet for our United States Postal Service started rolling out. So those -- that was the bulk of our start of our new product launches and the new capabilities we're offering to our clients.

With that, our lease terms tend to be somewhere in that 4- to 5-year range. So as those start to come off, that product is still very good, still meets the market demand. So that product does not require a new equipment sale. That client is going to come in and we're going to say, let's renew at a fixed term.

So what happens in the revenue recognition is when you have an equipment sale, that's a lot of upfront revenue and cost -- it's very -- it's a good margin, but you have higher revenue and higher costs.

When you actually renew this new lease term for another 4 to 5 years, you're going to have better cash flow because you're going to have more of that margin come through, but over time. So that's what we mean by having less of the upfront new lease being a new equipment sale and more of the overtime, which is that renewal with the new term.

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

I see. And with the financing portion of that, is there an interest rate associated with that, that fluctuates or how is that part of it set?

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

Actually, that's a great question. Our sales force really tends to sell the value based on the payment. So as you can imagine, the profitability shift stronger, in the renewal than in the upfront from a margin perspective.

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

Right. I see. Okay. Great. And then just a last question for me. On the capital structure front, now that you've dealt with your 2024's, where is your next focus at this point? Would you consider being back in the market buying bonds? Or how do you think about the next steps with your capital structure?

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

Yes. So taking a step back at capital structure, our #1 priority continues to be reinvesting in our business. You have seen a decrease in our CapEx and our capital expenditures and it's been significant. The main driver there has been the fact that we're not expanding capacity in Global Ecommerce, but we are definitely investing in SendTech and Presort as we've used to and also in optimization. So that's point number one.

Point number two is we will continue to look at acquisitions, of course, very selectively. As an example, the ones that come to mind that we're always looking at are around the Presort space, which tend to be very accretive to our EBITDA immediately because we put them into our network.

Third, we'll be, we will continue to assess the market for open market repurchases, mainly around our 27s. As you know, year-to-date, we've done about $17 million of those repurchases in the calendar year of 2023. And then, of course, the return of capital through dividends or other means which is something we actually actively discuss with our Board on a quarterly basis. And that's kind of the 4 key elements of our capital structure.

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

Got it. Great. Appreciate it.

Operator

And I'll hand the call back over to Mr. Dies, if he has any additional remarks to make.

Jason C. Dies ***Pitney Bowes Inc. - Interim CEO***

Yes. Thank you very much. I want to thank everyone for joining today's call. I am now 30 days in, and I will tell you our teams are committed to delivering a streamlined organization and importantly, maximizing the potential of each of our businesses. I am very encouraged by the continuing dedication and energy of the outstanding employees here at PB as we work together to move the company forward. And I will tell you, we look forward to continued engagement with all of our stakeholders and shareholders. So thank you again for joining the call.

Operator

And that does conclude the call for today. Thanks for your participation and for using AT&T teleconference. You may now disconnect.