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PBI - Q3 2017 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 revenues of $843m, GAAP EPS of $0.31 and adjusted EPS of $0.33. Expects 2017 revenue on constant-currency basis to be 3-5% vs. 2016 and adjusted EPS to be $1.38-1.46.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Third Quarter 2017 Results Conference Call. (Operator Instructions) 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 the participants on today's conference call. Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President, Chief Operating Officer; Mr. Stan Sutula, Executive Vice President, Chief Financial Officer; Ms. Lila Snyder, Executive Vice President and President, Global Ecommerce and Presort Services; and Mr. Adam David, Vice President, Investor Relations.

Mr. David will now begin the call with a 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 2016 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. - CEO, President and Director*

Thank you, Adam, and good morning. Joining us this morning, we also have Lila Snyder, Executive Vice President and President of our Global Ecommerce and Presort Services businesses. I thought it would be beneficial if you heard directly from Lila about our recent acquisition of Newgistics, the strategic fit and how we will proceed going forward.

Before I turn it over to Lila, I want to depart from my normal practice and begin by talking about the quarter. As has been the case in the past, there are many currents we ran through the quarter, and Stan will take you through the details.

At a summary level, revenue is turning out as expected, but our bottom- line is less than we expected. Clearly, part of the miss is due to poor execution. We own that and have made the appropriate changes. At the same time, we continue to invest in growth opportunities, some of which we planned on and some that have arisen throughout the course of the year.

The enduring point is that we have found our next chapter and have centered on shipping and addresses. The evidence is found in our revenue performance. We're experiencing growth in markets that are shipping, parcel and address-centric. This transcends our entire business, SMB, Enterprise and Digital Commerce.

Let me reiterate a point I have made before. We will continue to use our intellectual property from a technology and domain perspective across these businesses, so we can utilize scale and create economic advantage in the area of shipping, parcels and addresses. In short, our next chapter is predicated on taking the complexity out of shipping, the same as we have done for mailing over the last 100 years.

Let me be clear. We continue to see mailing as an important part of our future. We're not trying to be a marketplace or to deliver goods, but we are trying to take the complexity out of what has become a very complex dynamic for our clients. In some ways, this is perfectly analogous to mailing. We didn't and don't originate the mail or deliver the mail. That's what our clients and the postal services do.

In the same way, we are not trying to sell the goods or deliver the goods. That is what marketplaces, retailers and logistics companies do. Instead, we will be making shipping simpler for our clients as we have made mailing simpler for decades.

This is a compelling opportunity for Pitney Bowes. We clearly have brand permission, compelling capabilities, including the recently acquired Newgistics business and our new SendPro family of products, and importantly, we have momentum.

And as we foreshadowed in 2014, this opportunity will have a different margin structure than our core business. We are fortunate that we have built the capabilities that will enable us to drive even more efficiency into our expense structure. To that end, we are announcing a spend reduction program of at least $200 million over the next 24 months.

Let me double click on this point. Over the last 5 years, we have moved the weighted average growth of our portfolio from minus 2% to plus 3% growth. Moving the portfolio to growth is the hard part. Adjusting the expense structure is much more straightforward and something we have successfully demonstrated in the past.

Companies struggle to find their next chapters. We have found ours, and we have the capabilities to succeed in the marketplace. And clearly, we have the capability and the credibility to take out expense.

Turning to our broader strategic initiatives. With the announcement of the new SendPro C-Series, we have realized our vision of the reinvention of our mail business. Even though it is early, we are very pleased with the performance and reaction to the new product. Stan will take you through the details.

On a related point, we conducted a hackathon at the end of September. As you know, the C-Series is based on an open Android platform. We had over 2,000 developers around the world participating, and they developed 75 new potential applications, most of which centered on mailing and shipping. This is a game changer for our clients, dramatically opening up new value propositions and totally reinventing this business.

Moving to an open platform, a digitally connected software-as-a-service is a dramatically different value proposition. I believe it creates the very real possibility to reinvent our core business. In short, we have created a whole new set of possibilities.

We continued to drive operational excellence. The $200 million spend reduction we are announcing today rides on top of the $300 million we have already taken out. Stan will also mention operational excellence initiatives in our shipping APIs within our e-commerce business.

And as is true in any initiative, there can be start up issues, and we had some in the third quarter. But we are now operating close to the industry norms of availability, and we have built significant demand for this opportunity.

Finally, our Digital Commerce business grew very well, with Global Ecommerce growing 28% and Software growing 12%. I'm very encouraged by our Ecommerce growth. We see many strong opportunities, and we continue to invest in those opportunities. In terms of Software, 1 quarter of strong growth isn't a trend, but I'm encouraged by the continued progress in building relationships with new go-to-market partners.

In summary, while I'm not happy with our quarterly or annual performance, and the path forward will continue to have its challenges, I am very encouraged about the possibilities we have created for our firm.

Now let me turn it over to Lila.

Lila Snyder - *Pitney Bowes Inc. - Executive VP and President of Global Ecommerce & Presort Services*

Thanks, Marc. On October 2, we completed the acquisition of Newgistics, which is a natural strategic fit in the company's next chapter. I will share what Newgistics does, how we see the strategic fit for Pitney Bowes and our expectations going forward.

Newgistics provides parcel delivery services, returns, fulfillment and digital commerce solutions for retailers and e-commerce brands. This acquisition provides expansion into the U.S. domestic market for our Global Ecommerce business while complementing our cross-border business. It also aligns with our Presort Services network. It essentially sits right in the middle and builds on the strength of both our e-commerce and Presort businesses.

Online shopping is now part of millions of consumers' everyday life. The products and services provided by Newgistics will also enable us to provide a more robust and consumer focused end-to-end shopping experience, both cross-border and domestic.

Newgistics has a demonstrated track record of success in the e-commerce industry. Their expertise in the delivery, return and fulfillment of parcels is supported by the breadth of their retail client base and strong customer retention history. Aligned with the most important trends in e-commerce, Newgistics enables its clients to improve the post- purchase experience for consumers and to scale rapidly as their e-commerce businesses grow.

For example, Newgistics recently helped a midsized e-commerce brand called Good American, redistribute its inventory from a single fulfillment center to multiple Newgistics centers, resulting in a 15% reduction in transportation costs, faster delivery times to consumers and accelerated returns. This is just one example of how Newgistics drives value for its clients, allowing the retailer to invest in their growth.

We plan to leverage Newgistics' existing network and volume to drive scale across the Pitney Bowes parcel platform. And as Marc mentioned, you will start hearing us talk a lot more about parcels going forward, how we make it easier and more efficient for our customers to fulfill, send, sort and return. And Newgistics is helping us to enable that strategy.

Domestically, Newgistics' existing parcel processing capabilities and footprint will provide scale in the area of parcel sortation and will provide incremental cost savings opportunities.

Newgistics has 9 U.S. processing centers, 8 of them within an hour of our own Presort center. Currently, Newgistics handles more than 100 million parcels annually. There are significant potential synergies to be realized upon the integration of our 2 companies. The integration of complementary shipping technology, overlapping transportation network and parcel processing infrastructure is expected to yield savings in terms of reduced transportation spend, technology support and ultimately, in pricing leverage.

From a cross border perspective, Newgistics' nationwide parcel logistics network will enhance our current offering with more efficient first-mile capabilities, improved returns for our U.S. retailers and enhanced delivery options on parcels inbound to the U.S. from our U.K. and Australian retail clients.

In addition to margin enhancement, cross-selling will present an opportunity to grow total revenue given relatively limited overlap from a client perspective today. Let me take a minute to expand on this.

Newgistics has approximately 500 retail clients that can now be introduced to our cross-border solution in order to expand their business internationally. Similarly, our current cross-border business has approximately 250 retail clients to which Pitney Bowes can now offer a fulfillment, delivery and return solutions from Newgistics.

Lastly, our Presort clients have been encouraging us to expand into parcels, and this acquisition immediately gives us that capability without having to build it organically. We are only a few weeks into the integration, but we are already seeing evidence of the cross-sell synergies as we begin to have joint client meetings to explore the opportunities.

From a timing perspective and to ensure clients get the support they expect, our plan is to leave the business operations uninterrupted as we head into the busy holiday and returns season. However, during that time, we have a team focused on integration planning, and we will begin making investments to start taking advantage of the integration in 2018.

With that, I will turn it over to Stan, who will go through the financial details of the quarter, full year guidance and also update you on the impact of Newgistics for the remainder of the year. Stan?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Thank you, Lila, and good morning. There were several factors impacting our results that I want to first go through to provide a good grounding on where we are and what this means going forward.

Overall, revenue in the quarter performed in line with our full year guidance and was flat to prior year. This is a significant improvement from the trend over the last 2 years. And as our business model continues to shift towards the long-term market growth rates, we expect revenue to further improve from where we are today.

We did underperform on earnings, and we have lowered our earnings and resulting free cash flow guidance for the remainder of the year. Let me compartmentalize what has happened into 2 major categories, execution missteps and items that are part of the company's transition to growth.

First, the execution missteps. In our North American Mailing business, the majority of the shortfall was driven by poor sales execution in our field channel with our legacy products, which impacted revenue as well as the segment's bottom line.

In our Global Ecommerce business, we experienced some start-up system stability issues with our domestic shipping APIs. This not only put us behind in ramping up volumes, which are high margin, but also required additional investment to remedy the situation. And as a result, we have seen a significant improvement in our stability and are now close to industry norms, and importantly, we have built significant demand, which we will realize in 2018.

Also within Global Ecommerce, we resolved a vendor contractual issue related to cross-border operations and incurred marketing expense with a specific client, both of which negatively impacted our bottom line. We did not anticipate these events entering the quarter.

The second category impacting the quarter are items that are part of the company's transition to growth. Global Ecommerce revenue grew 28% in the third quarter, driven by strong growth in all of our cross-border geographies as well as growth in domestic shipping. This quarter's performance, along with the expected fourth quarter growth, is above the long-term market growth rate and as such, comes with incremental investments.

As we have said in the past, we will always subordinate period results to the creation of long-term value. A key component of Global Ecommerce's transition to growth and profit is shipping APIs, and we continued to invest, adding 14 new features this quarter. Despite the bumps along the way, we are printing millions of labels on the platform and that number is growing. But given the delayed ramp, we are not at the original levels we targeted for 2017.

We continue to see shipping APIs as an exciting revenue and EBITDA opportunity and are confident that this will help drive 2018 performance and beyond. In keeping with the company's transition to growth, in September we launched our new SendPro C-Series product line in the U.S. We are tremendously pleased with the results to date.

In the quarter, we purposely deferred selling activity of lease extensions in order to give clients an opportunity to buy new product. This decision gives clients the opportunity to get new technology and provides Pitney Bowes the opportunity to build our asset base, creating long-term value but have also depressed short-term revenue and profit.

Even though it's early, since launching the C-Series, we are ahead of schedule on writing new orders. Clients have been very receptive to the incremental value proposition, which we are able to provide and are signing longer-term leases at a higher price, which is a positive indicator for future sales, streams and retention. Also, service and printer attachment rates on the new product are strong. Let me remind you that this new product is positioned in the middle of the line, squarely where we have substantial market opportunity.

As a major step in the company's transition to growth, we closed on the Newgistics acquisition in early October for a purchase price of $475 million, making this the largest acquisition in the company's history. With this acquisition, we have expanded our e-commerce end market from $7 billion to $20 billion, which presents a great opportunity for Pitney Bowes.

As our business model continues to shift toward the long-term market revenue growth rates, we will shift our structure to align with it. Now that we have a simpler and more digital operating model enabled by the capabilities that we have built over the last few years, we are launching a $200 million spend reduction program over the next 2 years.

Now when we talk about the company, you'll start to hear a common theme within each of these segment groups, a theme around shipping of parcels and addresses. As Marc discussed, this is the next chapter for Pitney Bowes.

Let me take you through the details on the quarter. 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 statements posted with our earnings press release and on our Investor Relations website. It's also important to note that this quarter's adjusted results do not include the impact of the Newgistics acquisition, which we closed on October 2.

In the third quarter, we delivered $843 million in revenue, adjusted EPS of $0.33 and free cash flow of $109 million. Revenue is flat to prior year. We continue to experience a shift in our portfolio toward growth markets. Revenue benefited from strong, double-digit growth in our Global Ecommerce segment as well as growth in our Software and Presort Services segments. Revenue declined in our SMB and Production Mail businesses.

On a year-to-date basis, total revenue is $2.5 billion, flat to prior year. For the quarter, adjusted EPS was $0.33, which was a decline of $0.11 from prior year. Year-to-date, adjusted EPS is $1.01, which is down $0.14 from the prior year.

For the quarter, GAAP EPS was $0.31 and included transaction costs related to the Newgistics acquisition of $0.02 as well as restructuring charges of $0.01. Year-to-date, GAAP EPS is $0.92, which is down $0.02 from the prior year.

Free cash flow was $109 million this quarter, which was a reduction of $11 million from prior year. On a GAAP basis, we generated $146 million in cash from operations. Compared to prior year, free cash flow was impacted by our lower net income but offset by favorable working capital, specifically within accounts payable and accrued liabilities.

During the quarter, we used cash to pay down $385 million of debt, $35 million of dividends to shareholders and $11 million for restructuring payments. Year-to-date, free cash flow is $238 million, which is $32 million lower than prior year for the same period. Year-to-date GAAP cash from operations is $331 million, which is $34 million higher than prior year.

Looking at the P&L, starting with revenue performance by line item and as compared to prior year. Business services grew 14%, driven by continued double-digit growth in Global Ecommerce as well as growth in Presort Services.

Software revenue grew 11%, driven by a large Location Intelligence deal and a good contribution from our indirect channel. We had declines in support services of 4%, supplies of 6%, rental revenue of 7% and financing of 8%, largely due to the performance in our SMB segment group.

Equipment sales declined 10% on a tough comparison to prior year in our Production Mail business and also the weaker performance in North America Mailing.

Gross profit was $454 million, with a margin of 53.9%, which was 270 basis points lower than prior year and largely reflective of the decline in SMB, investments in Global Ecommerce and the shifting mix of our portfolio.

SG&A was $299 million or 35.4% of revenue. Compared to prior year, SG&A declined by $2 million and improved by 40 basis points as a percent of revenue.

R&D expense was $32 million or 3.8% of revenue. Compared to prior year, R&D expense increased $3 million and increased by 40 basis points as a percent of revenue.

EBIT was $123 million, and EBIT margin was 14.6%. Compared to prior year, EBIT declined $23 million, and EBIT margin declined 280 basis points. This decline was driven primarily by the decrease in the company's gross profit as well as incremental investments, largely in e-commerce.

Interest expense, including financing interest expense, was $41 million, which was $6 million higher than prior year but about $1 million favorable when you take into consideration the pretax controlling interest paid on our PBIH preferred stock last year.

The provision for taxes on adjusted earnings was $20 million, and our tax rate was 24.6%, which was an increase of 270 basis points over prior year.

Diluted weighted shares outstanding at the end of the quarter were 188 million, which is 1 million shares higher than prior year.

Turning to the balance sheet. We ended the quarter with $1.7 billion in cash on hand and short-term investments. Short-term and long-term debt at the end of the quarter totaled $4.2 billion, which is about $817 million higher from year-end and third quarter prior year.

During the quarter, we issued $400 million of 5-year notes, $300 million of 3-year notes and borrowed a total of $350 million in term loans. The new issuances were used along with cash on hand to redeem our $385 million September notes.

Also in October, we paid for the Newgistics acquisition of $475 million and executed a make whole on our May 2018 notes of $350 million, resulting in cash and debt declining. At the end of the third quarter, we had no commercial paper outstanding.

Short-term and long-term net finance receivables were $1.5 billion, which was a decline of about $95 million from year-end and third quarter last year, and reflective of the decline in our financing portfolio.

Let me now discuss the performance of each of our business segments this quarter. In the SMB Solutions segment group, revenue was $414 million, a decline of 8% from the prior year. EBIT was $117 million, and EBIT margin was 28%.

In North America Mailing, revenue was $320 million, which was a decline of 9% versus prior year. Equipment sales declined from prior year largely due to lower sales in our top of the line products, where last year we closed a large deal and this year we had poor execution. Additionally, we experienced a lower level of client lease extensions this quarter, which impacted equipment sales.

There has been some lumpiness in our numbers over the last several quarters, but when we look at the segments' equipment sales on a trailing 12 months view, they are slightly up, an improvement from where they had been in the 12 months prior and a positive indicator for future stream revenues.

The decline in the recurring revenue streams also contributed to lower revenue performance this quarter. Compared to last quarter, we did see an improvement in our services and rental margins. As we have noted, we expect to see short-term margin pressure, particularly around the cost of rentals due in part to higher depreciation.

This quarter, we launched our new SendPro C-Series in early September and as such, recognized less than a month of equipment sales from this new product during the quarter. To date, we are seeing the take rate on C-Series nearly double as compared to our prior generation of product launches. The margin on the new product is in line with our legacy products, and we are also seeing longer lease terms as well as strong attach rates of service and printers as clients see the longer-term value proposition.

Before we had the new product, one of our typical sales plays was to extend client leases. This was and is very profitable. And while it kept the client on the platform, it did not offer an enhanced long-term value proposition.

With the new product, the sales focus has been to sell new products. The margins are not as strong in the short run. However, given the incremental value proposition, it does secure and enhance the long-term stream that is ultimately consistent with creating long-term value.

EBIT was $108 million and EBIT margin was 34%, a decline of 690 basis points from prior year, largely due to the decline in mix of equipment sales along with the decline in the recurring streams.

In International Mailing, revenue was $94 million, which was a decline of 5% from the prior year. Equipment sales were relatively flat and driven by growth in France and the U.K., but offset primarily by weakness in Italy and Japan. EBIT was $9 million, and EBIT margin was 9%, a decline of 20 basis points from prior year.

In the Enterprise Business Solutions segment group, revenue was $223 million, which was growth of 1% over prior year. EBIT was $34 million and EBIT margin was 15%, a decline from prior year of less than $500,000 and 40 basis points, respectively.

In Production Mail, revenue was $104 million, which was a decline of 3% from prior year. Equipment sales declined from prior year largely due to lower equipment placements where prior year had several large sorter and inserter deals, which is impacting the comparison. Partially offsetting this were print sales, which more than doubled in the quarter.

Support Services revenue was offset by lower supplies revenue. Support services revenue improved, which is the result of an enhanced value proposition. Our Clarity solution also has enabled us to improve retention with our clients through additional value-added services like equipment productivity and efficiency.

EBIT was $15 million and EBIT margin was 14%, a decline of 50 basis point over prior year, mostly due to the mix of equipment sales.

In Presort Services, revenue was $119 million, which is growth of 4% driven by improved revenue per piece along with higher Standard Class mail and Parcel volumes processed. EBIT was $19 million and EBIT margin was a 16%, a decline of 40 basis points from prior year, driven by increased mail processing costs and investments in our new parcel sortation capabilities.

In the Digital Commerce Solutions segment group, revenue was $206 million, which is growth of 19% over prior year. EBIT was $11 million, and EBIT margin was 6%, a decline from prior year of about $550,000 or 140 basis points, respectively.

In Software Solutions, revenue was $99 million, which was growth of 11% over prior year. Revenue benefited from a large Location Intelligence deal as well as strong performance by our indirect channel, which contributed to the license revenue growth.

Our data, SaaS and maintenance revenues also grew this quarter. EBIT was $21 million and EBIT margin was 21%, growth of $11 million and 940 basis points, respectively. More importantly, EBIT margin performed within our long-term market range. This quarter's performance gives us further confidence that the strategy we put in place is starting to yield the returns that we expected, but we know there is more work to be done.

In Global Ecommerce, revenue was $106 million, which is growth of 28% over prior year. Our sustained double-digit revenue growth was driven by strong performance in all of our cross-border geographies. We also experienced growth in our domestic shipping driven by our carrier services, which are enabled by our shipping APIs.

Our carrier services provide our clients with a true end-to-end solution to generate shipping labels and also provide shipping delivery services. EBIT was $10 million loss, and EBIT margin was a negative 9%.

As I mentioned earlier, there are a few items that impacted the bottom line for Global Ecommerce. We resolved a vendor contractual issue related to our cross-border operations and incurred marketing expense with this specific client, both of which negatively impacted the segment's EBIT.

We continue to invest in this business to support the revenue growth. As witnessed by this quarter's strong revenue performance, the investments are paying off. And we continue to invest in our high-margin domestic shipping APIs to stabilize the platform and expand the capabilities.

Now let me update you on our full year guidance. For the full year 2017, we now expect revenue on a constant currency basis to be in the range of 3% to 5% when compared to 2016. This change is a result of the incremental revenue expected from Newgistics in the fourth quarter. We expect adjusted EPS to be in the range of $1.38 to $1.46.

Let me take you through what changed. First, as referred to earlier, North America Mailing's third quarter was weaker than anticipated. We expect fourth quarter equipment sales to improve and be more in line with the trailing 12 months. However, this is lower than we originally anticipated. That being said, we remain focused on successfully selling our recently launched C-Series products, which are being very well received in the market and performing in line with our expectations.

Second, within Global Ecommerce, as previously discussed, we had some onetime issues and are behind schedule on ramping up volumes with our domestic shipping APIs. This not only put us behind on generating the high-margin label printing fees associated with these APIs, but also required additional investment.

In addition, our retail cross-border volumes grew double-digit in the third quarter, and we expect continued growth in the fourth quarter, albeit lower than the levels we originally contemplated given the macro trends in the industry.

As for Newgistics, we expect this business to be slightly dilutive to our EPS in fourth quarter. While this is their largest quarter for processing parcels, which will drive incremental revenue, we will also be incurring investment costs around integration, incremental amortization of intangibles along with higher interest expense, all of which offset the incremental revenue and earnings from this business. As Lila mentioned, cost synergies along with the cross-sell opportunities will drive future growth.

As a result of the lower EPS guidance, we expect free cash flow to be in the range of $350 million to $380 million. We are lowering the annual tax range on adjusted earnings to be in a range of 28% to 30%, based on our year-to-date rate of 25.8%.

Also, I want to address the spend reduction program, which is enabled by the transformation of our business model along with third-party benchmarking. Over the last several years, we have taken out $300 million in SG&A, all while investing in new digital products, our channel, brand, marketing campaigns and our enterprise business platform.

We are launching a $200 million spend reduction program over the next 24 months. This $200 million represents a gross spend reduction off the 2017 base and is driven by operational excellence initiatives, including the $35 million to $45 million in 2018 related to our enterprise business platform. This excludes the synergies for Newgistics. The savings will come from across the organization, including people and programs.

Let me close with this. Our third quarter bottom line results were disappointing, and we were not where we expected to be going into the fourth quarter. We are now in a trajectory of continued improvement in revenue and have ultimately shifted our portfolio to growth. We have shifted organically, and now with Newgistics added to our mix, we see a greater opportunity for growth.

There have been challenges and inconsistencies along the way, which are not atypical for a company going through a transition. We do recognize there is more work to do. We have our top line moving the right direction and now our bottom line must follow. Our track record says we can reduce our expense structure. We can and will do it again. We are confident in our ability to transform the portfolio, simplify our operating model and execute on this program.

Let me turn it back to Marc, and then we will take your questions.

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

Thank you, Stan. During the third quarter, we validated that the next chapter of revenue growth will come from shipping, parcels and address verification, all of which transcends our entire business. And while I was disappointed in our financial results in the quarter, I'm encouraged about our path forward as we continue to transform our company.

With the Board of Directors and the management team continuing to focus on enhancing shareholder value, the board believes now is the time to explore a broad range of strategic alternatives that have the potential to further unlock shareholder value. We have made substantial progress against our strategic objectives and with the acquisition of Newgistics, our portfolio has moved towards growth. We are committed to improving our margins and improving efficiencies throughout the business by taking out $200 million in spend. While we have accomplished a lot, there's clearly more to do.

Operator, we will now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Shannon Cross with Cross Research.

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

Can you talk a bit about sort of the longer-term cash generation characteristics of the model as it stands? Given the need to invest in the growth areas and then what you're seeing in terms of some at least near-term pressure on the Mailing business. I'm just trying to think about -- the company typically was a pretty significant cash flow generator over the years, and is this where we're going to switch to more of, I guess, an investment vehicle? I don't know. Can you just -- and then if you can talk a bit about your thoughts on dividend and uses of cash over time.

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

Shannon, let me start, and then Stan will add. The way I think about that is exactly the way that we laid it out in 2014. So if you think about those businesses, we laid out our long-term revenue growth rates, they still hold. The margins still hold. So as we think about the cash flow, it's simply a derivative of the revenue at the mix that we suggested and the margins that flows. So that's how we think about it, there's nothing that's changed in our thinking. In terms of the dividend, the dividend continues to be our priority. It's part of our investment thesis. Again, nothing has changed in terms of our thinking there. And I would point out while the earnings were less than what we expected, we're still generating a reasonable amount of cash with $109 million of cash. So I think it's a fair question, given all the things that are moving around, for sure, but the short answer is our thinking really hasn't moved.

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Yes. And I'd add to that, Shannon, that in terms of longer-term cash generation, I think if you take a look by our business segments, within SMB, mailing, we've seen that equipment sales did not have a good quarter this quarter, but if you look at the trailing 12 months, they were up slightly. And I think that's a first indication of some long-term recovery in streams, and the streams are what drive a lot of that cash and profit. If you look at our software business, it had a good quarter this quarter, and you saw the EBIT margin pop up.

When it performs well, it also throws off a lot of cash from profit. And then in Global Ecommerce, we've steadfastly maintained that, that's going to be an investment strategy ahead. And we had 28% revenue growth. But we do expect to start yielding profit out of this model. And adding Newgistics to the mix, I think enhances that value proposition out to our clients. So we look at where we're going to invest. We're going to continue to invest in our product set, in particular in Global Ecommerce, that we expect to see an improving profit portfolio along with Newgistics and the shipping APIs as they ramp up.

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

The other part of that is the $200 million of expense takeout obviously has a meaningful impact on cash. Thank you for your question.

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

Okay. And then can you just give a little bit more detail and some of your thoughts on strategic alternatives? Is this precipitated -- obviously, I'm guessing from the numbers that came out today and then sort of the trajectory we've seen last couple of quarters. But also, were you approached by anyone? Just if you can give us a little bit more there, and how significant of, I guess, change are you willing to undertake?

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

Sure. So obviously, I'm going to be a little circumspect about what we say here. But let me kind of answer the inference of the first question. It was not because of a quarter or even a year. If you think about this issue, the first thing I would say is, the Board has been remarkably disciplined since I've been here in terms of looking at a breadth of strategic alternatives. So it begs the question of what's different? So as I said, it wasn't the quarter, it wasn't the year, but what's different is the company is different. And you can dimensionalize this in many different ways. You can start in the income statement with the top line. 5 years ago this was a company that was a melting iceberg. It was mail-centric. Today, this is a company that the weighted average growth of the portfolio is plus 3 from minus 2. If you look at the product portfolio 5 years ago, we didn't really have any new products that were contributing to growth. Now we have a meaningful contribution to growth. We've taken out $300 million of expense underneath that. We've got fundamentally different business processes, different technology. So the short answer on why now is it's a different company, and that's what provoked the broader consideration of strategic alternatives. In terms of what's on the table? Everything is on the table, but through the lens of increasing shareholder value. So that's kind of what provoked the thinking, that's how we're thinking about it going forward.

Operator

And our next question will come from Ananda Baruah with Loop Capital.

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

So Marc, just sticking with the strategic alternatives, everything on the table, looking through the lens of creating shareholder value. Could you maybe just sort of tease out a little more context around shareholder value and the potential long-term synergies in that regard between the traditional Mailing business as you see it and the aspects of the business, the newer parts of the portfolio that you talked to on the call as being the growth drivers going forward? And just as we sort of try to frame for ourselves, what -- how you guys might be thinking about it? I'd love to get some context there. And then I have a follow-up as well.

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

Sure. It's a really good question. So in one sense, if you think about the traditional Mail business, we continue to believe that the secular drivers in mail will continue, that market will continue to decline. That's become a different dynamic with the new products. So if you ask what ties the traditional business, the SMB business with Pitney Bowes going forward? The new product, CSD2 is the connective tissue and particularly around shipping. So if you think about the new product, it is a software as a service, digitally connected multi-application mail shipping plus lots others. So our thinking is kind of bifurcated in terms of how we think about that business. So if I would have told you 5 years ago that SMB was a software as a service, digitally connected multi-application, you would have -- that would have been a head scratcher. But that's precisely what it is today. Shipping ends up being the connective tissue. So let me give you a couple of examples where we're sharing technology across, because it continues to be an important thesis. Things like carrier libraries, which are important throughout the entirety of our businesses. API technology, which was so important in the Hackathon, which was so important, as Lila mentioned, in her ecommerce services businesses. So what we see is, well, the secular issues in mailing we don't believe will change. The technology that we use in "our newer businesses" we're driving into that SMB business, which is why I said, that the -- with the CSD2, the reinvention of the mail, I think the Hackathon is a wonderful illustration of the point. So if you think about Hackathon that we completed a couple of weeks, I guess a month ago at this point. Think about having 2,000 developers from around the world developing 65 applications for our 1 million SMB clients, that's a tremendously powerful dynamic. And as I said in my remarks, it is a game changer. So what you see is kind of -- you don't see a change in the secular dynamics, but you do see very clear evidence of how we've reinvented the business. The question that Shannon asked is, this is a different company.

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

Got it. That's helpful context. I could drill down into that but I'll save that for later because I want to get a couple more in. With regard to the execution-related dynamics that impacted the margin this quarter. I guess, how many quarters or what time frame do you think until those normalize, those aspects of the margin impact?

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

So I think SMB sales execution improves in the fourth quarter, period, full stop. I think if you look at the dynamics in Global Ecommerce, 2 of those 3 were clearly one-off issues in terms of the marketing issue as well as the settlement with the client. The API issues, we've stabilized that technology, it's now performing as we want. That being said, you're not going to get a lot of shippers coming on that platform in the fourth quarter when it's their busiest season. So what we are encouraged about and what's -- I don't want to get lost in this conversation is we're seeing tremendous demand for the APIs. And even while the quarter fell short of what we expected, it still grew 50%. So it's an important growth dynamic. But while the technology is stabilized, it's going to be January when we realize the demand, but customers haven't blinked in terms of their willingness to consider our technology.

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

Great. So going into next year, it sounds like sort of the execution-related subject pretty much deep through and that impact will kind of deepen through the...

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

I would say the execution has already improved. By the way, across the board, in all of those dynamics. It's just we're not going to be able to realize the demand until we get through the holiday season.

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

Got it. And then last one for me. The $200 million of new cost savings initiatives. Now that's growth since 24 months. But should we develop any expectation that some of that could be passed to the bottom line over time? Or is that really more about optimizing and scale?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

The answer is, some will go to the bottom line and some will come through scale. This is $200 million of incremental spend actions above our 2017 run rate, and those actions are going to take the form of both program and people-related spend actions, so we'll make investments in things like Global Ecommerce. This is a gross reduction, some of that will flow to the bottom line, some of that will go back into the business, and we'll update you more as we look at next year's guidance.

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

And just off of that one. Do you expect to recognize it fairly ratably over the 24 months? Or is there a cadence to them we should be aware of?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

We'll go through that as we do our guidance for next year. Obviously, we'll take a big chunk of this in 2018. But we have not made that determination exactly yet.

Operator

And our next question comes from Kartik Mehta with Northcoast Research.

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

Maybe a bigger picture question, Marc. In any given quarter, as you look at the business, how much visibility do you have into revenue and earnings? And the backdrop of this question is, you've had issued your lower guidance several times, and each time you thought things were changing, execution was improving. So I'm just wondering from your perspective, how much visibility you have both for revenue and earnings?

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

On revenues, we've had good visibility this year on revenue. So we're kind of right in the bandwidth of what we called in beginning of the year, if not slightly above and that's why we, last quarter, moved to the upper end of the guidance. Obviously, margins, we've not had so much visibility. Some of that around the mix of the business changing. Some of it is around -- we see opportunities, we go after it. And some of it, candidly, like we saw in the quarters, some poor execution. So I think it's a different picture than it was a couple of years ago, where we didn't really have the revenue visibility. Now we've got, I would say, reasonably good revenue visibility, and it's just we got to get a little tighter around the margins.

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

And then, Marc, on the strategic alternatives. I realize in your stated comments you said you do not have a set timetable. But I imagine, internally you must have some type of timing as you don't want uncertainty, especially with all the employees and people trying to do their jobs and execute on it. As you look at the process, how do you think the process will go through in terms of you looking at alternatives and thinking about when to execute on them?

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

Listen, I'm not going to talk about the process and the alternatives beyond what I already have. As I said, I think it's a different company. It's what provoked the question from the board, the exercising of broader strategic alternatives. The process will go as it goes, but I'm not going to comment more deeply about it.

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

And then just last one question, Stan. As you look at the Global Ecommerce business, you talked about some one-time hit. What were the margins in that business if you took away the one-time hits and just looked at the business this quarter without those?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

I think if you took a look and kind of excluded the 2 onetime events, you'd see a profitability in range with what we've reported in 2Q. And again, when we look at what's happening in Global Ecommerce, the 28% revenue growth was across all of our properties, if you will. So we've gotten good lift on the revenue side. Those 2 items would put us back into our profit range of roughly what we reported in 2Q. But I think one of the impacts here why we're not seeing that lift more is the shipping API ramp. So while we've addressed the stability issues and we're approaching industry norms, those are highly profitable and that ramp has now shifted to the right. And as we go into fourth quarter, we do not believe that we'll see a material shift in fourth quarter simply because people are in the middle of the holiday season. But the stability of the platform has definitely improved. We've added 14 new offerings. The volumes were up over 50% from 2Q. So we're confident in the platform. We're confident in the offerings. We believe we'll see that ramp somewhat through 4Q but more into 2018.

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

I do think it goes back to the first question you asked and that the visibility around the margins. When you're in a new business like we are with APIs, I mean, new last year so -- and likewise trying to scale software. It's pretty hard to predict exactly how they come online. And I would plead guilty of being off a quarter or 2. But I think the common theme is that, directionally we're getting it right, but we're generally a quarter or 2 off of what we had anticipated. That's -- shame on us. That being said, to Stan's point, given the number of moving pieces and I encourage you kind of look back of the amount of change that's been induced in the company over the last 5 years between the portfolio, the business platform, the new products. There's been a lot of moving pieces to manage. But I don't -- I'd hate for the underlying trends to get lost in the quarter-to-quarter visibility.

Lila Snyder - *Pitney Bowes Inc. - Executive VP and President of Global Ecommerce & Presort Services*

Yes. I would just add. The way I think about this is, we're 12 months into a start-up on the shipping APIs. It's really what it is. It's coming from 0 to something. And I think Marc is right. We're guilty of being off by a couple of quarters. The one thing that I think gives us the most confidence is there has been no wavering in the market in terms of our clients and partners and their excitement about what we're bringing to market. So while they may not be willing to shift volumes to us during the holiday because of some of the stability issues, we do have a track record of running SaaS platforms in the ecommerce business at or above industry norms, and we're getting this platform to that level as we go through fourth quarter. So the demand is there in the market, and we feel confident about the traction we're getting with clients.

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

I mean, you look at the GST platform that we've run successfully now for 5 years. By the way, when I started, we had stability issues not unlike the stability issues that we've encountered there. Now if you look at the stability of that platform, it's as good as anything in the industry. (inaudible) we can do it.

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

And then maybe, Marc, just -- maybe just one last question for you, Stan. The confidence level that you have for the fourth quarter in terms of revenue and margin, just considering what's happened in the last couple of quarters?

Stanley J. Sutula - *Pitney Bowes Inc. - CFO and EVP*

Well, look. We're confident in it because we put it out there. As we look at fourth quarter, and I think if we go by business. So let's start with SMB. We have a new product that's out there. It's being very well received in the marketplace. We'll work through these sales execution items and that should help as we head into fourth quarter. Global Ecommerce, this is the biggest quarter for that business. We're coming off of a very strong revenue growth here in third quarter, and look for that to be a contribution. And while we haven't talked a lot about software here today, software had the best quarter they've had in a long time. Now we're cautious, 1 quarter does not a trend make. But we had good performance in the indirect channel for software and you saw revenue and EBIT margins that we have not seen in quite a while. Then we look at our Presort business, also grew and contributed as DMT, that's a little bit more volatile and is lumpy with the overall business. But if you look at where we are and what we did with the overall corporate spend, we're confident in fourth quarter on the number we put out.

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

That [and the timing of] the third question.

I think you can get lost in the story and the quarter-to-quarter stuff. We certainly look at that, and I would tell you, we die on the field, do the best the can every 90 days. So I'm not telling you I don't care about quarters, I do. That being said, I think the longer-term trends are as important as you're contemplating the creation of value.

Operator

And the next question will come from Allen Klee with Sidoti.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

For your API business, could you help us understand a little of how you go to market to sell that and type of customers that you're targeting?

Lila Snyder - *Pitney Bowes Inc. - Executive VP and President of Global Ecommerce & Presort Services*

Sure. We work with shipping partners. So there are a lot of technology companies out there that help small- and medium-size retailers primarily, warehouses as well, ship from an e-commerce perspective, and that software is something that we connect our APIs into. And we then work with those partners in an indirect way to help influence small and medium retailer to move on to their platforms. So we're targeting shipping, UI interface partners who have access to small and medium businesses, who have access to warehouse clients, who're doing high-volume shipping in a warehouse environment, and then we work with them to help them grow their business. That's a model we feel very good about and it's working well for us. And so that's the client group. It makes it a little bit more of a process from a sales perspective because we sign up the partners and then we help them sign up retailers. So it takes a little bit longer from a sales process perspective, and that's some of what we're feeling right now. But those relationships are strong. And I think that it is part of our value proposition is that we're offering something that is not just an API technology, but an end-to-end solution that leverages all of Pitney Bowes, from financing solutions, to parcel protection, to the data science we can embed in that, to talk about guaranteed or date certain delivery. Those are all aspects of our solution that go well beyond just the traditional shipping API provider.

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

I'll just double click on one point. We are very partner centric, and we are dead focused on making our partners successful in this marketplace.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Great. And then in the North American SMB segment, because a lot of revenue is recurring revenue, sometimes if a quarter is light, it then has a lingering effect. So how do we think about that in terms of how much of the timing issue is short term versus maybe longer term?

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

Sure. The way that I think about that is the trailing 12 months. I mean, so if you go back to second -- I mean, you -- actually if you go back to the first quarter of '16, we pulled ahead a lot of demand because of the business platform landing in the second quarter. We sold virtually nothing in the second quarter literally. Third quarter, we ended up selling a lot. I mean, so what you see in the last 7 or 8 quarters is there's a lot of noise kind of left and right in terms of the -- where demand is actually set. So the way that we think of this in terms of the impact of equipment sales on streams is we look at the last 12 months, and Stan made the comment, the past 12 months were essentially flat to up a little bit. So that's how we think about, Allen.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

So maybe just go ahead. It was -- so what -- just maybe if you could explain again kind of what caused the disruption or the miss this quarter? And why you think it's temporary?

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

Well, with -- I mean, so first of all there, go back to third quarter last year, there were some large deals that we had in the third quarter last year. So that always obscures the year to years. We had some large deals in the third quarter this year, but not as many as last year, and our deal closure rate on large deals was not as good. So because it's somewhat isolated and you can see it, that's why we have confidence it gets back on the horse. We entered the fourth quarter with a slightly higher backlog, a higher backlog then what we would have typically seen. So that tells you the demand is there, it's just slightly off. The other thing and Stan mentioned in the comments and you can kind of gloss over, but it's a fairly important. So if you think about the last 4 or 5 years in the low and midrange, we haven't had -- I mean, last 4 or 5 years, probably last 10 years, we haven't had new technology to sell. So the normal sales motion there was to go to a client and say, "Mr. Client, I know you've had this technology for 48 months, please sign up for another 5 or 6 months." That's tremendously profitable. You recognize a reasonable amount of revenue in the short term, but obviously it doesn't do anything around your long-term asset base. So with the new product in the third quarter, it's a different selling motion. So it wasn't we're going to extend your lease. It's here's a totally new value proposition, new piece of equipment, which you recognize less revenue in the short term, slightly less margins, but it rebuilds your asset base. So that contributed as well.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay. And then lastly, on Newgistics, can you help us in any way to think about kind of what the opportunity is in terms of revenue growth rate and margin profile?

Lila Snyder - *Pitney Bowes Inc. - Executive VP and President of Global Ecommerce & Presort Services*

Yes, let me talk a little bit about that. We -- this does a couple of things from a market perspective. So we've always talked about our Global Ecommerce business as being in a $7 billion market. With the addition of Newgistics, we moved that to a $20 billion market, with the addition of a lot more U.S. opportunity around fulfillment, returns and delivery. It keeps us in a similar growth range from a market perspective. So we think of the growth rate of the market we're now in across e-commerce, including Newgistics, as a 14% to 18% growth market. So that's sort of the range we expect to be in going forward. Obviously, in Q3, we were well above that, but that's the range we're targeting. As we bring these businesses together, we see a lot of synergy and that will contribute both on the bottom line in terms of cost savings and margin synergies, but we also see a tremendous amount of revenue synergy and revenue upside. So one example of that is, if you just think about the simplest of revenue synergies, which is the cross-sell opportunity, I mentioned it in my remarks, Newgistics has about 500 retail clients. We have the opportunity now to sell into those clients, cross-border solutions as well. On the other side, we've got 250 retailers on our cross-border platform. We now have the opportunity to talk to them about a broader set of services around digital solutions, returns, delivery and fulfillment. At the same time and probably more overlooked, we have many, many Presort clients who've been using Pitney Bowes for mailing sortation over the years and they've been asking us to get into the parcel sortation market. We can use the Newgistics network to serve that market as well, and so that presents a nice cross-sell opportunity for us going forward, too.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay. And one other thing, in e-commerce, in your comments, I heard that while you're in investment mode now and it's losing money, that you have an expectation of improvement of that in the future. Can you help us -- help quantify that? Does that mean at a certain point, getting the profitability that you've mentioned?

Lila Snyder - *Pitney Bowes Inc. - Executive VP and President of Global Ecommerce & Presort Services*

I'll reiterate what Marc and Stan have both said. While we still see growth opportunity, we're going to continue to invest behind it. And with the addition of Newgistics, we see a cluster of opportunity to continue to invest. So we're going to continue to look at that in a very stringent way around the ROI and that investment, but we're going to continue to make investments there. I would point to 2 things. One is, if you look at the year-to-date EBITDA of this business, it is EBITDA positive, while Q3 was not our best quarter from a profitability standpoint. We are performing EBITDA positive year-to-date. As we said before, as you put volume into these businesses, whether it be our current cross-border business or Newgistics, that really does lend to higher margins. We've seen that historically in the fourth quarter. We expect that as we continue to scale this business, we'll see more of that over time.

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

Here's what I think about, and rest assured that Lila and Stan and I have this conversation almost on a daily basis. So the first way I think about it is we guided long-term margins in this business. There's nothing that has changed about our view of the long-term margin opportunity in this business, nothing, point 1. Point 2, as long as we see an opportunity to get what I would say is nonlinear growth, and I would consider 28% nonlinear versus the market rate, we'll continue to invest in front of that. As the growth rate begins to moderate towards the mean, towards the market, then the profitability will reach more of a steady state. So that's kind of how we think about it from our perspective. But understanding fundamentally this is the scale business and we're in a land grab right now, where we believe we have competitive advantage. I'm going to grab as much land as we possibly can, so that when the growth does moderate to the mean, then we've got as much scale as we possibly can.

Operator

And our next question comes from Glenn Mattson with Ladenburg Thalmann.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Most of my questions have already been asked. But I'll say curious as regards to the strategic alternative review. Is it also going to be a review of the capital allocation? And most specifically, do you expect to review the dividend policy in that process?

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

Listen, we said everything is on the table. But I'll go back to what I said. It's the dividend -- there's 2 important pieces that we have going forward. One is the dividend continues to be an important part of our investment thesis. And secondly, we are committed to have investment-grade ratios. So while strategic alternatives could touch a lot of replaces, I think those are -- those appear to me to be very steady.

Operator

And at this time, we have no further questions in queue.

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

So listen, first of all, thank you for your time. Obviously, a lot to digest. And Adam and the rest of us will be around. We are, for obvious reasons, going to be fairly circumspect about talking much more about strategic alternatives. We'll let you know when we have more to say about that. But I think we've pretty much exhausted everything that we're going to say at this point. So while we were disappointed about the quarter in terms of the financial performance, I do think -- I keep on going back to the fundamental point that this is a different business. It's a business, but now it's more into towards growth that's driven by parcels and shipping and addresses, and we remain very confident about the future for this business. Thank you very much.

Operator

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