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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Fourth Quarter Earnings 2022 Results Conference Call. (Operator Instructions). Today's call is also being recorded. (Operator Instructions). I would now like to introduce your participants for today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Ms. Ana Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Ned Zachar, Vice President, Investor Relations.

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

Ned P. Zachar ***Pitney Bowes Inc. - VP of IR***

Good morning, everybody. This is Ned Zachar. I manage the Investor Relations program for Pitney Bowes, and I'd like to welcome everyone to the call this morning. We very much appreciate your interest and participation.

Part of my duties includes covering the safe harbor information for these calls. Included in today's presentation are forward-looking statements about our future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. For more information about these risks and uncertainties, please see our earnings press release, our 2021 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 that are used in the press release were discussed in our presentation materials. You can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our website.

Additionally, we have provided a slide presentation and a spreadsheet with historical segment information on our Investor Relations website that summarizes many of the points we will discuss during today's call.

You may have seen that one of our shareholders recently announced Director nominations for the 2023 Annual Meeting. We issued a press release on January 23 with our response, and we will not be answering any questions relating to the nominations on this call.

Our format today is as follows: Marc Lautenbach, our President and Chief Executive Officer, will begin with opening remarks, which will be followed by Ana Chadwick, our Chief Financial Officer who will provide an in-depth discussion of our financial results.

I'd like to now turn the presentation over to Marc. Marc, the floor yours.

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

Thanks, Ned, and good morning, everyone. I appreciate everyone joining our call this morning. For the quarter, revenue was flat on a comparable basis after adjusting for currency, a divestiture and a revenue presentation change that Ana will detail shortly. EBIT grew slightly and cash flow for the quarter was up strongly.

SendTech and Presort continued their solid and predictable performance. In aggregate, the two businesses were essentially flat from a comparable revenue and profit perspective, and both businesses made good progress shifting their portfolios to growth. In Presort, this means marketing mail and bound printed matter and for SendTech shipping revenue. In North America SendTech, over 40% of our revenue is now coming from new products. They include our most recent award-winning IoT device, the Cube, Mailstation and ParcelPoint. These products set along our SaaS offerings, including PitneyShip and PitneyAnalytics. This is a direct result of investments we have made in this business. Margins at Presort continued to improve and are again within the long-term model. Again, these improvements in margin are a direct result of investments we have made in automation in the Presort business. In aggregate, these two businesses continue to perform well in a choppy market.

I would also be remiss if I didn't add our financial services business performed very well. Finance receivables, an important harbinger of future growth grew for the quarter and credit losses were minimal. Deposits, collections and funding activities were all very well managed.

In GEC, the headline is this - we made substantial progress across many important line items, but we're expecting to make even more progress. Specifically, our customer satisfaction increased 23 points over the course of the year. In the quarter, our network performance improved over 10 points on a year-to-year basis. These items helped us grow domestic parcel volumes by 16% in a difficult market. On the cost side, labor productivity improved 35% and transportation productivity improved close to 20%. All in, gross margin per piece improved $0.50 on a year-to-year basis. Lots of good improvement.

But we're expecting even better. When you boil it down, there were two issues. First, we did not get enough heavy weight parcels within our volume. This depressed revenue per piece and ultimately gross margin to lower the positive levels. Second, while our transportation improved close to 20%, we were counting on a 25% improvement.

In order to continue to improve our transportation execution, we're enhancing our processes and implementing a new transportation management system in the first half of the year. Specific to mix, we are increasing our focus and our resources on markets that have higher weight parcels. Our personal pipeline and backlog have plenty of higher weight parcels. So we have the opportunity, we just need to get that volume into our network. It will take a bit of time, but there's no shortage of opportunity.

Our cross-border business continues to face headwinds due to the unprecedented strength of the dollar and potential changes to the way one of our largest clients will access our services in the middle of the year. As a result, I expect this business to continue to be under pressure for some time.

So in conclusion, relative to GEC, we moved the ball forward, but we had the opportunity and the expectation to do even better. That said, our domestic volume exit rate was toward the high end of what we guided to and our implementation and backlog pipeline is very strong. This is a good harbinger for the future as volume is still the principal factor in reaching our long-term profitability.

A few words on capital allocation in our balance sheet. Thematically, our emphasis for capital allocation and our balance sheet continues to be around strategic flexibility. As I indicated at the outset, our cash performance was very strong for the quarter. Part of the performance was around timing of working capital, but there was also very good execution on collections, deposits and funding. Also of importance, we renegotiated our revolver agreement, which will afford us more flexibility going forward.

Finally, on an opportunistic basis, we began to purchase back tranches of our debt. We'll continue to pursue debt repurchases opportunistically.

A final comment on the portfolio. Our Board and I continue to believe our portfolio is coherent in markets where we have a brand permission to win.

That being said, we continue to look for opportunities to unlock shareholder value. Sometimes this means proactively looking for opportunities. And other times, it means reacting to inbound inquiries. The sale of Borderfree in 2022 is an excellent and recent example of how there may be opportunities to simplify our portfolio further even within larger business segments.

So in short, I like our portfolio, we will continue to look for opportunities to unlock value for our shareholders, and that process is ongoing.

Let me now turn the conversation over to Ana.

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

Thank you, Marc, and good morning, everyone.

Before I begin my financial review, I'll note that the year-over-year revenue information I'm going to discuss is on a comparable basis. Adjustments include the impact of currency, the Borderfree disposition effective as of July 1 and a change started in the fourth quarter due to a contract modification with USPS in the presentation of certain revenues from gross to net of pass-through shipping costs for our digital solutions.

This revenue presentation change primarily affects Global Ecommerce and, to a lesser extent, SendTech. The change does not affect the profitability of those revenues.

Also, unless otherwise noted, I will speak to other items such as EBIT, EBITDA and EPS on an adjusted basis.

The following is a high-level review of the year-over-year comparison of our fourth quarter results.

Total revenue for the quarter was $909 million, which is flat on a comparable basis. Gross profit for the company was $288 million compared to $283 million for the same period last year, a 2% increase. Gross margin was 32%, up from 29% last year.

EBITDA was $88 million, down slightly from $89 million a year ago.

EBIT was $49 million, up from $47 million a year ago, which is a 5% increase.

Interest expense was $37 million, up from last year's $35 million level.

Corporate expenses for the quarter were $63 million, up $19 million from prior year, driven by the timing of variable compensation accruals. For the year, corporate expenses were 2% lower.

Adjusted EPS was $0.06 in the quarter, the same as prior year.

Turning to cash flow. GAAP cash from operating activities was $167 million in the quarter compared to $85 million in 2021. Free cash flow was $108 million compared to $39 million last year. The improvement in free cash flow was driven in part by lower CapEx and favorable working capital items that were a drag earlier in the year. CapEx for the quarter was $27 million, down from $43 million in prior year. During the quarter, we paid $9 million in dividends and made $4 million in restructuring payments.

I will now touch on the key annual data points for 2022.

For the year, company-wide revenues were $3.5 billion, similar to 2021 on a comparable basis.

EBIT was $179 million, 12% lower than prior year. Adjusted EPS for the year was $0.15 versus $0.32 last year. GAAP EPS was $0.21, versus a $0.01 loss last year.

Full year cash from operations was $176 million compared to $302 million in 2021. Free cash flow was $68 million compared to $154 million. Capital spending was $125 million versus $184 million in 2021.

At the end of the quarter, weighted average diluted shares outstanding were approximately 178 million. Looking at the balance sheet. Cash and short-term investments were approximately $681 million at quarter end, higher by approximately $75 million as compared to the third quarter of 2022. Total debt at year-end was $2.2 billion compared to $2.3 billion at year-end 2021.

The following segment information is summarized in our press release and slide presentation, both of which are posted on our Investor Relations website. I'll start with Presort.

Presort revenues were $158 million in the quarter, which is a 1% improvement from last year. New customer additions and higher revenue per piece contributed to the revenue gains. Total sortation volume of 4 billion pieces was down 8% compared to prior year. EBIT for the quarter was $29 million, up 25% versus last year. EBIT margin was nearly 19%, which is a 360 basis point improvement versus fourth quarter 2021. Our ongoing investments in automation and sorter refresh is resulting in better productivity, which is driving the margin improvement.

The important headline is, Presort annual revenues topped $600 million for the first time, with profitability levels in line with our long-term model.

Moving to SendTech. SendTech reported revenues of $341 million in the quarter, which was down fractionally compared to prior year on a comparable basis. Growth in shipping-related revenues offset declines in financing, rentals and supplies. Equipment sales continued their growth progression. SendTech EBIT was $106 million compared to $109 million in prior year. EBIT margin for the quarter was stable at 31%. Shipping-related revenue, which now comprises 14% of segment revenues increased 30% versus prior year. And the SendTech team continues to build the shipping pipeline.

I'll spend a moment on the performance of our financial services business inside of SendTech. Finance receivables are up 4% year-over-year and we continue to see healthy payment trends across our financing portfolio. 30-day delinquencies are now just 150 basis points, down 70 basis points year-over-year. At year-end, the finance portfolio totaled $1.2 billion.

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

Moving to Global Ecommerce. The Global Ecommerce segment made substantial progress in the quarter, especially in the domestic parcel operations where gross profit improved significantly compared to fourth quarter 2021. However, as Marc stated, the strong improvement fell short of our expectations. Global Ecommerce reported $410 million in revenues and grew slightly over prior year on a comparable basis. Total segment gross margin in the quarter was $27 million compared to $17 million a year ago. Strong gross margin in domestic partial growth total segment improvement. Segment EBITDA was negative $5.5 million compared to negative $20 million in fourth quarter 2021. EBIT for Global Ecommerce improved $18 million from a loss of $41 million a year ago to a loss of $23 million.

First, let's talk about where we saw improvement. Domestic Parcel volumes were up 16% year-over-year to 54 million. And as we expected, we exited the year with run rate volumes of roughly 200 million. In the context of an industry that is projecting to be down, the 16% gain highlights that our services resonate with our clients. For the quarter, domestic parcel gross profit improved $24 million year-over-year. For the full year, gross profit per parcel improved $0.35, which translates to $58 million.

Let's note, in the quarter, we reduced production labor spend by 25% versus prior year despite processing 16% more parcel. This improvement is a direct result of our investments in automation, robotics and technology. Service levels continued to excel, a net or were near the 90% mark throughout the quarter. As a result, our Net Promoter Scores improved 23 points to 27 for full year 2022.

Finally, our client pipeline is strong heading into 2023 with first quarter planned implementations running at near double the rate it was in the first quarter 2022.

On the other hand, in spite of these improvements, we fell short of our EBITDA positive goal by $5.5 million. Especially in December, the mix of volumes skewed toward lighter parcel rates resulting in lower revenue and margin per parcel than we anticipated. To be clear, the lighter weight volumes are still profitable, but the difference in mix from what we expected, caused the majority of the miss from our goal.

Also, as Marc noted, transportation costs per parcel decreased materially compared to prior year driving approximately 20% productivity improvement but fell short of our 25% expectation. We're taking specific actions to address these two areas.

Let me now share some perspective on the full year for global e-commerce. For the year, Global Ecommerce lost $22 million in EBITDA, similar to 2021. But in many respects, the years were quite different. At the gross profit line, the improvement, excluding Borderfree was $34 million year-over-year.

Let's unpack the gross profit, which more precisely illustrates the improvement in Domestic Parcel. In 2022, Domestic Parcel gross profit increased by $58 million. The remainder, Cross-Border, Digital and Fulfillment declined by $24 million, primarily due to lower volumes in a difficult macro environment.

Overall, we are very pleased with the substantial increase in Domestic Parcel volumes and profitability this quarter. We continue to expect that domestic parcels will improve gross profit by 400 basis points in 2023, building on the 650 basis point increase in 2022. Domestic Parcel now represents approximately 75% of segment revenue, which bodes well for the future success of the segment, though our financial results will be more seasonally driven than they have been in the past.

Now I'll shift the conversation to our capital structure. As you may have seen, we filed an 8-K on December 8, that details the adjustments we made in our credit agreement. We are pleased to have received the support of our lenders, which augments our financial flexibility during a period of substantial volatility in the capital markets. We have begun to buy back our debt at a discount. To date, we have purchased approximately $10 million across the 2024 and 2027 maturities and plan to continue to do so opportunistically. Anticipating a question regarding our 2024 maturity, we expect that cash flow and revolver access will be ample to meet that obligation should a cost-effective capital market solution not be available.

I'll conclude my remarks with perspective on 2023. We expect flat to mid-single-digit revenue growth on a comparable basis. We expect percentage EBIT growth to outpace revenue growth as Global Ecommerce profitability continues to improve. Finally, we expect Global Ecommerce to be EBITDA positive in 2023, driven largely by continued gross margin expansion in domestic parcels and partially offset by increasing macro uncertainties and softness in cross-border.

We are providing the following additional perspective on 2023. We are reaffirming our CapEx expectations of approximately $115 million. Also, higher interest rates will result in roughly $30 million of incremental interest expense compared to prior year. And finally, we expect our effective tax rate to be approximately 25%.

In closing, SendTech and Presort continue to deliver solid and predictable performance. In Global Ecommerce, we made significant progress, especially in domestic parcels and look forward to continuing this momentum into 2023.

I will turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

Could you talk a little bit further on the Global Ecommerce side and how you're looking at strategic alternatives for that business? I think I can hear the disappointment in another negative EBITDA year. Would you be open or consider selling part of the business, shutting part of the business? And I know you talked about being EBITDA positive this year, but what are other options you might explore?

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

Yes. So I appreciate the question. The first thing I would say is -- we did have the expectation to do slightly more. It would not be accurate, however that we are disappointed. There's a lot of progress there. So I'd start with that.

In terms of alternatives that we look for, not just Global Ecommerce, but for any business, what I've said for 10 years is if a business is worth more to somebody else than it is to us then -- and it's a serious offer, we would certainly contemplate that. And if you look at the last 10 years, whether it be the divestiture of the software business or Imagitas or other assets, we've hold true to that.

Most recently, the divestiture of Borderfree, I think, speaks to your question. That was a portion of Global Ecommerce. It was something that we like the business. We continue to be in cross-border, but that was worth more to Global-E than it was to us. So we would look at any alternative that we think unlocks value for our shareholders, whether it be shutting something down, selling something or indeed selling the whole business. But we do think, as I said, that business continues to be a coherent part of our portfolio, and we're optimistic about how we go forward.

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

I appreciate that, Marc. And would you mind commenting further on SendTech. You talked a couple of interesting comments I thought. One, about 40% of your sales coming from new products now, but also seen declines last year in finance, rentals and supplies that were partially offset by shipping. Can you talk about some of the dynamics in SendTech and how you see that on a unit basis for 2023?

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

Sure. So I mean there's 2 different currents running through the SendTech business. The first is the mail business, which continues to experience secular decline. That hasn't changed. The other current is shipping revenue, which continues to be a good market. In aggregate, those two markets together are about a $6 billion business that's growing. So our expectation is shipping revenue becomes a higher and higher percent of the total business and continues to grow. Ana said 20%, that those 2 dynamics begin to cancel it or out. And as you look at SendTech overall, it was essentially flat last year. From a unit perspective, equipment revenue is probably the easiest way to think about that. Equipment revenue was up low single digits for the quarter and for the year. That's kind of the confluence of those two dynamics coming together. So I like that business. I would say SendTech and Presort together provide ballast for the business and our balance sheet as we continue to improve Global Ecommerce.

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

And Marc, when you say mail continues to experience secular decline. Could you quantify that secular decline number at all about where you guys continue to see that?

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

I mean so First Class Mails, I would say down high single digits, 5% to 10% depending on the quarter. Marketing mail is down a little bit less. So it's I would say single-digit declines depending on which segment of mail.

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

That's great. And then just a last one for me. Ana, could you comment on just expectations for free cash flow for 2023? I think you gave us the pieces, but just curious from your model, how that looks on a total free cash flow basis for 2023.

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

Yes. So as you commented, I gave you the pieces there on EBIT, CapEx, interest and tax. The hard one to call here is a little bit around working capital, and that's why we gave you the pieces. As the business moves to seasonal adjustments greater in the fourth quarter and calling out the movements in working capital is a little harder. That's why we moved the path here to give you the components.

Operator

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

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

So first on GEC. So you talked about that the mix overall had a higher-than-expected volume of light weight parcels putting profitability or maybe less than expected, I guess that's a better choice of words. But was this really you think more of a result of new client wins that these new clients that you signed on? Did that have the most significant impact from this? Or was it just a mix of old clients just shipping more light volume? Just wanted to get a better sense of that.

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

That's a great question. So there's a couple of things that are true. We had a very successful quarter in bringing on new clients. I would say those new clients did have a slightly lower weight than average. However, we plan for that? What was different than what we expected is from our existing customers. Think of that as same-store sales for lack of a better term.

In weeks 49, 50 and 51, read that as the last couple of weeks of the quarter, we didn't get as much volume from them as we expected. We still got more volume than we had the previous quarters and good performance, but we are expecting slightly more. So if you look at same-store sales, they were -- we got good increases from many of our clients. It was just slightly less than we expected those last 2 or 3 weeks.

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

Understood. Okay. So now looking forward, when you're going out and targeting new clients, are you going to be more kind of diligent as far as who you assess as to who you're going to bring on to make sure that you have a better mix of heavier weight parcels? Is that how you're thinking about managing that? Or maybe you could just talk a little bit more how you're thinking about trying to be more profitable in GEC?

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

Sure. So one thing that Ana said that's really important, and I don't want people to lose sight of is even the lighter weight parcels were positive from a gross margin perspective. So as long as our network is under capacity, we'll take that volume. It adds to profitability. It's accretive to absolute margins, et cetera. We will, within the total pipeline, be more diligent, if you will, in terms of realizing the higher weight stuff, and we will skew our marketing and sales resources to get more higher weight stuff too.

So it's not that I don't like the lower weight stuff. I like it. As long as our network is under capacity, we'll take more of it. But it's also true that our sales and marketing and our management system will be more skewed to ensure that we get higher weight stuff. And that's -- my comment on the backlog is important. So we've got a big backlog right now, and we've got plenty of higher weight stuff in there. We just need to get that stuff into the network.

I think it's important. Hold up a second, if you will. If you look at our revenue per piece for last year in our domestic business, it was up double digit. So I know there's always a fear that you chase lower-margin stuff. But if you look at our revenue per piece last year, it was up 12% to 15%. So that gives you -- should give you -- gives me a fair amount of assurance that the team is focused on bringing in the right mix at the right price.

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

Okay. And then as far as the unallocated corporate expenses, those came in higher than expected. I know Ana, you talked about the incentive comp or the timing of that impacting. Going forward, how should we expect unallocated corporate expenses to flow through for the year?

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

Yes. So what we're expecting is, as a company pay for performance, we expect to replenish or re-levelize some of our incentive compensation as we move into 2023. And we are continuing, as I mentioned last quarter, to have a very strict cost program. So the net of those 2, you should see pull-through.

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

Okay. Okay. And then lastly, as far as the '23 guidance. Can you give us a sense as to how should we think about the different segments? And as far as quarterly progress, given what's going on with the economy, do you expect things to be softer in the first half versus the back half? Or I don't want to put words in your mouth, but how should we think about the quarterly progression, if you could just give any color as far as the revenue outlook for the year, that would be very helpful.

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

Sure. As I mentioned, I think the biggest driver here will be the growth in Global Ecommerce, especially around our domestic parcel and we anticipate that to be more back-end loaded in the year, probably more fourth quarter than everything. So I would anticipate our profile as a company to follow that as well.

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

I also mean --I will try to make a really important point, which I know you guys get. The seasonality of Global Ecommerce is heavily skewed to the fourth quarter, and you can see it across the entire market. So as I think about it, you've got SendTech and Presort that are pretty consistent throughout the year. You have GEC that is entering a more seasonal business. And it's also true as we bring on more customers that will also be realized in the back half of the year. So it's a different kind of skew than we're used to seeing. I think the market's best consistent with the overall dynamics within the industry.

Operator

Operator Instructions) Next, we'll go to the line of Peter Sakon from CreditSights.

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

Following up on the weight of the parcels. You talked about targeting a higher weight package. Can you talk about what the average is now and the strategy to gain is with additional higher weight volume?

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

Average is about 2.5 pounds, I mean, between 2.4 and 2.5 pounds. In the last couple of weeks of the quarter, it went closer to 2 pounds. I mean so that was kind of the variance that we saw. We like that 2.5. I mean as I said, even at 2 pounds, it's got a positive contribution margin to the overall business. So it's not that we don't like those business. It's just -- we've got to ensure that we get the right absolute number of higher weight parcels. So we don't think about this as mix. We think about this. If we're targeting 200-plus million parcels. Within that, we need the right absolute percent of heavy weight -- right absolute number of heavy weight parcels?

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

But how -- can you talk about how you'll achieve this? Like what are the strategies that are important to improve this?

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

So within -- as I said, within our backlog, the mix is -- there's plenty of heavier weight parcels there. So we'll have a higher degree of focus on those parcels. I would also say if you look at the mid-market in general, which is kind of where our principal hunting round is, the mid-market within retail marketplaces tends to have more higher weight parcels. So I mean, our bias and kind of our go-to-market model is already skewed towards heavier way stuff. And now it's near compensation system is as well. So we pay sensitive to profit, which is largely, although not exclusively driven by weight and price.

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

Okay. What do you think is the capacity utilization of your network currently? And what's the target you offer for 2023?

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

So right now, our exit rate of the year, which we said in the fall of this year was between 195 million to 200 million parcels. I would say we're kind of on the north end of that. So a little bit above 200 million parcels. I think about a network that's got capacity for 300 million parcels. Our objective this year for that business is probably to be north of 220 million to 230 million parcels. So that's kind of the basic math that we're looking at. So think of a market that's running 70% to 75%.

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

And on capital allocations, you talk about CapEx and -- what's the mix by segment for 2023 in the quarterly -- I see in your disclosure roughly 40% for Global Ecommerce in 2022? And so what's the sort of your expectation for each segment for 2023?

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

Yes. The expectation would be -- will be down, as I mentioned, on a year-over-year basis. And the expectation would be that we will have a little bit of a higher decline in Global Ecommerce. So Global Ecommerce will be around 40-ish percent still of the total. The interesting thing here to point out is that as we mentioned in 2022, we will continue to spend on optimization of the network rather than that expansion of capacity. We feel good with the capacity, as Marc just noted, and the other segments will keep roughly similar proportions than what they've had in the past.

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

So the CapEx, I want to make two additional points with that CapEx number and context? Two years ago, I believe we spent $190 million on CapEx or $185 million, I mean somewhere in that range on CapEx. That was largely around the build-out of the network to accommodate those 300 million parcels. So the 110 is kind of in that context. The other point that I would say, if you look at the capital consumption of GEC, it is, as Ana said, down dramatically. We're still targeting for EBITDA minus CapEx and working to have a plan. That number is positive. I'd say I've become a little more cautious about that dynamic in 2023, given the macroeconomic environment. But that's still what the team is reaching for.

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

And just following up on the Ecommerce EBITDA. What -- like how much EBITDA on the domestic business versus the international business? And are those business -- I'm guessing, international is struggling more early seems to be. Could you separate that or exit international if it doesn't turn EBITDA positive in 2023?

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

Yes.

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

Yes. So the way -- the easiest way to think about it is from a gross margin perspective. And I want to point out what we mentioned is the dynamics are changing. And as we move into 2023, Domestic Parcel will become even a greater proportion of that gross margin. As I mentioned, 650 basis point improvement and additional at least 400 basis points more as we go into 2023. So we anticipate that more and more of our profitability will come from that Domestic Parcel and 75% of revenues are already in that domestic parcel. So it gives you a sense of the proportionality.

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

This is my last question. But just -- I guess you could argue that just because of something in a greater proportion doesn't necessarily mean if international is smaller, it doesn't necessarily mean it's good, if you will, or maybe if I could say differently, if it's still negative, is it worth keeping despite being a smaller proportion?

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

Was the question specific to GEC?

Peter Sakon ***CreditSights Inc. - Sr. Research Analyst***

Yes, the international portion of GEC.

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

Is it worth keeping it? It depends a little bit on what you could fetch on the outside market. It's still positive from a gross margin perspective. I would say, as witnessed with the cross-border business, and globally, if it's worth more to somebody else than it is to us, then we would certainly consider any serious offer. So our intent is all those businesses to contribute positively to the P&L going forward. I will say, as you think about the business going forward and the reason we're so fixated on the domestic parcel margins is that's where most of the appreciation comes from in the next couple of years.

Operator

Your next question comes from the line of Alek Valero from Loop Capital.

Alek Valero ***Loop Capital Markets LLC - Equity Research Associate***

It's (inaudible). So my question is regarding the December quarter. Maybe if you guys could provide a bit more color on to what extent macro impacted the December quarter relative to where your expectations were? Was it a little bit more macro focus? Or was Street just too high?

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

I don't think the Street was too high. I mean we had -- as I said, we had higher expectations for the business. The principal variance was in Global Ecommerce and it was in those two line items I mentioned. One was revenue per piece in weeks, 49, 50 and 51 was a little bit less than we thought. That cost us about $5 million in transportation costs, while they improved meaningfully year-to-year, but that would also improve meaningfully quarter-to-quarter. So we said north of 20% improvement year-to-year is also about the same quarter-to-quarter. We were expecting another probably $5 million of benefit there. So those two together were $10 million of EBIT, that's kind of -- that more than closes our -- the $0.02 to the Street.

Alek Valero ***Loop Capital Markets LLC - Equity Research Associate***

Awesome. That was helpful. And the second question, if I may. So given your guidance of having EBIT outpaced revenue growth. And you mentioned that was primarily -- was going to primarily be driven by Global Ecommerce. So do you guys expect Global Ecommerce to be profitable in 2023?

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

The EBITDA profitable in 2023?

Alek Valero ***Loop Capital Markets LLC - Equity Research Associate***

Yes.

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

I think-- I mean, think about it this way. I mean, so it was minus $22 million from an EBITDA perspective last year. So EBITDA positive, right, there is $20 million to $25 million of improvement. Candidly, we expect more than that, but that's just kind of the basic math. But you've got some headwinds of interest expense and other things that you're running against.

Operator

And at this time, there are no further questions. I'll turn it back to you for any closing remarks.

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

Thanks. So listen, (inaudible) about the quarter. I do remiss if I didn't end by thanking the Pitney Bowes team. I am continued to be pleased and impressed with people's commitment to this business. You saw it in our distribution centers where we have lots of volunteers to help in the middle of peak and not just first or second shift and not just in the good cities, but all over -- and third shift, and that's a true sign of folks' dedication to this business and to moving forward.

So as I said, our headline for the quarter is we made lots of good progress across many different dimensions. In Global Ecommerce were expecting to touch more. SendTech and Presort continue to be steady performers, and we expect that to continue. So as we move into '23, there's lots of different currents running through the economy. We're a little more cautious about how we call the year. We've got much more focus on providing flexibility to accommodate different things that may happen in the environment.

That being said, our focus continues to be as we get out of this economic moment and get to more calm waters how this business is positioned and I continue to like our hand. We will certainly look at any strategic options that present themselves along the way, but I like how we're positioned. So thanks for your time this morning, and we'll talk soon.

Operator

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