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PBI - Q4 2014 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 2014 revenue of $3.8b, GAAP EPS of $1.64 and GAAP EPS from continuing operations of $1.47. 4Q14 revenue was $984m, GAAP EPS was $0.31 and GAAP EPS from continuing operations was $0.29. Expects 2015 revenue growth, excluding currency impacts, to be flat to 3% vs. 2014 and Expects 2015 GAAP EPS from continuing operations to be $1.85-2.00.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes fourth-quarter, full-year 2014 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 your speakers for today's call. Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President and Chief Financial Officer; and Mr. Charles McBride, Vice President, Investor Relations. Mr. McBride will now begin the call with the Safe Harbor overview.

Charles McBride - *Pitney Bowes Inc. - VP of IR*

This call is 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 2013 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 most of the points we will discuss during the call. These slides can also be found in our Investor Relations website. Now, our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Good morning. And thank you for joining us. By now, I hope you had a chance to review the press release announcing our full-year and fourth-quarter financial results and our guidance for 2015.

We're very pleased with our results for all of 2014, including our fourth-quarter performance. We did a good job navigating a fairly turbulent macroeconomic environment. The fourth quarter clearly demonstrated the resilience and strength of our business model, our strong market position, and our strong offerings. Mike will provide an overview of our fourth-quarter, full-year and our 2015 guidance.

I'm going to provide perspective on our overall transformation. Bottom line, we've made tremendous progress against our three strategic initiatives to transform our Company and unlock shareholder value. Just to remind everyone, our three strategic initiatives are: number one, stabilize our mail businesses, number two, drive operational excellence, and finally, growing our business through expansion in digital commerce. Let me take each of those initiatives in order.

First, stabilizing the mail business. Over the last two years, we have taken steps to re-engineer our go-to-market model, moving to sales techniques which are much more scalable, including telesales and the web. These initiatives are providing the benefits of providing better client service and are substantially more efficient. This transition is complete in North America and under way in Europe.

In the second quarter, we pointed to some disruption in our North American business, as we changed our coverage model. We continued to have some disruptions in the third quarter. In the fourth quarter, however, we saw improvements from the trends in the second and third quarter, and we continued to expect improvement going forward. We're in the process of executing these go-to-market changes in Europe and we expect to continue to execute these changes on a country-by-country basis, throughout Europe. Again, we're confident that these go-to-market changes will provide better client service and be dramatically more efficient.

Second, operational excellence. In May of 2013, we committed to reduce our going-rate expense as we entered into 2015 by, $100 million to $125 million. We've done that. And we did that while we've made substantial investments in our future. Investments in our systems, our brand, and importantly, our products.

We've made substantial progress reducing our DSO and our inventory levels. Our inventory levels are about half what they were only two years ago. We committed to investment in great ratios. To that end, we have both retired and refinanced debt.

We have fine-tuned our geographic footprint and our product portfolio. Focusing on specific markets and partnering in other geographic markets, where we have competitive advantage and, importantly, make good returns. Finally, in January this year, we re-launched our brand, supported by a new website. This was much more than putting a fresh coat of paint on an old car. The brand reflects our Company's unique position in the physical and digital worlds.

The net impact of all of these changes is increase in our EBIT margins, a strong balance sheet, and a Company well positioned for the future. Finally, our last initiative. Growing our business through expansion in digital commerce. In May of 2013, we identified a series of digital markets that, in aggregate, represented close to $30 billion of opportunity growing at a double-digit rate. We said it was our objective to lead in those markets and grow at double-digit rates.

To many of you, it probably seemed as a touch of an aspiration, given those businesses had not grown in several years. In 2014, those businesses grew over 20% and now represent more than 20% of our portfolio. Good progress from a standing start two years ago. But we're just scratching the surface.

Bottom line, Pitney Bowes is a different Company today than it was two years ago. We committed to a strategic plan, laid out markers and we have executed. That said, quarter to quarter, there may be factors like changes in go-to-market or currency fluctuations that affect results. But our strategy is aimed at delivering real shareholder value over the long term.

Much more to do and we're in the mid-innings of a multi-year transformation, but we have created substantial value and we have more in our sights. Let me now turn it over to Mike to give you the specifics on the fourth quarter and the year.

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

Thank you, Marc, and good morning. As Marc mentioned, we're very pleased with our full-year results as we achieved our annual guidance targets for revenue, adjusted earnings per share, and free cash flow.

For the full year, excluding the impact of the divested revenues in Europe, revenue grew 2% on a constant currency basis. Adjusted earnings per share from continuing operations were $1.90 and free cash flow was $571 million. We were able to achieve our annual guidance targets on strong digital commerce solutions and presort services revenue growth, and the benefits of our operational excellence cost initiatives.

And we achieved these results despite changes to our SMB portfolio and sales force, a challenging year-over-year comparison in our production mail business, and a strengthening US dollar, particularly in the latter part of the year. We worked through these challenges, we stayed focused and even expanded our cost reduction initiatives. We continued to optimize our business portfolio, by also investing in our growth initiatives, a new ERP system, and a new brand.

We also continued to effectively implement our capital allocation strategy, and returned value to our shareholders through a competitive dividend and a $50 million share repurchase. Our actions throughout the year support our multi-year strategy to stabilize our mailing business, achieve operational excellence, and invest for growth. I will update you first on how the actions we have taken positively impact our fourth-quarter results, and discuss later how we expect these actions to impact our 2015 and mid-term financial results.

Turning to the quarter, revenue for the fourth quarter totaled $984 million, compared to the prior year. Revenue declined less than 1% on a constant currency basis and 3% on a recorded basis. Despite the headline, recorded revenue decline, our underlying operational performance was solid.

As we noted last quarter, we exited a non-core product line in Norway and transitioned to a dealer-sales network for six smaller markets in Europe. The divested revenues associated with these actions were approximately $12 million and were not restated as a discontinued operation. Adjusting for these divested revenues and the impact of currencies, which was about $20 million, our underlying operations grew 1%. This is in line with our overall results for the year.

During the quarter, the growth rates for each of the three segment groups continued to progress towards our longer-term expectations, as outlined at our Analyst Day in May. On a constant currency basis, revenue grew 13% in digital commerce solutions and declined 2% in enterprise business solutions. SMB solutions revenue declined 5% on a constant currency basis, but declined only 3%, when also adjusted for the divested revenues. For SMB, this is an improvement in trend and is solid progress in our stabilization efforts.

We also continued to reduce SG&A expenses versus prior year, as a result of the ongoing implementation of our go-to-market strategy, as well as other cost reduction initiatives throughout the business. We achieved a reduction in SG&A despite increased investment in our new ERP system, increased investment in marketing and support of the new brand, and the investment in growth initiatives.

We have reduced the baseline SG&A by $136 million. This exceeds our original cost-savings target of $100 million to $125 million, and we're not done yet. We have identified and recorded restructuring costs in the fourth quarter for an expanded set of initiatives that are expected to add an additional $30 million to $40 million of annualized benefits, principally in 2015. More on that later.

The revenue results and reduced costs are reflected in our adjusted EBIT dollar and margin growth versus prior year. Adjusted earnings per diluted share from continuing operations were $0.51 for the fourth quarter, compared to $0.51 in the prior year. Currency had a $0.01 per share negative impact on EPS this quarter, and prior-year results included a tax benefit of $0.04 per share. Adjusting for these factors, for comparative purposes, adjusted EPS grew 11% in the fourth quarter.

GAAP earnings per share from continuing operations was $0.29, which included a restructuring charge of $0.22 per share associated with an expansion of our previously announced cost reduction plans. GAAP earnings per share for the fourth quarter were $0.31, which included income of $0.02 per share from discontinued operations. Free cash flow during the quarter was $154 million and, on a GAAP basis, we generated $258 million in cash from operations.

In comparison to the prior year, free cash flow is primarily impacted by the timing of tax payments, the timing of working capital requirements, and higher capital expenditures related to our ERP implementation. During the quarter, we used $38 million of cash to return capital to our common shareholders in the form of dividends, and we made $14 million in restructuring payments. Also during the quarter, our Board of Directors approved a new $100 million share repurchase authorization.

Turning to the income statement. Please note that all income statement related results are on an adjusted basis. A reconciliation of adjusted-to-reported financial information can be found in the financial schedules in our earnings press release.

Adjusted earnings before interest and taxes, or adjusted EBIT, were $201 million this quarter, which was $13 million, or 7% higher than prior year. Adjusted EBIT margin was 20.4%, which was an increase of 180 basis points over prior year. Adding back depreciation and amortization, adjusted EBITDA for the quarter was $255 million. SG&A for the quarter was $347 million, or $15 million less than in the prior year. As a percentage of revenue, SG&A was 35.3%, which was an improvement of 50 basis points.

As I mentioned earlier, we achieved this despite the incremental expense related to the new ERP implementation. Excluding the ERP expense, SG&A would have been 34.5% of revenue this quarter, or 110 basis points improvement. During the quarter, we recorded a pretax restructuring charge of $62 million for actions associated with our previously announced plans to reduce costs. While we are taking a number of actions across our business, a significant portion of these charges relate to our decision to accelerate our go-to-market strategy in Europe.

Net interest expense, which includes financing interest, was $42 million, which was a decline of about $2.5 million when compared to the prior year. This is the result of actions we have taken to reduce and manage our debt over the last year. Average outstanding borrowings during the quarter were about $200 million lower than the prior year. The average interest rate this quarter was 5.27%, which was about 13 basis points lower than the prior year.

The effective tax rate on adjusted earnings for the quarter was 32.1%, compared to 25% in the fourth quarter of 2013. Last year's lower tax rate resulted from our favorable resolution of certain tax matters that resulted in a benefit to the income statement in the quarter.

Turning to our financial performance for the full year. As I noted earlier, our results are consistent with our annual guidance. For the full year, revenue totaled $3.8 billion, which was growth of 1% when compared to prior year, on both a constant currency and reported basis. For comparative purposes, if we adjust the results for the impact of the actions we took in Europe earlier in the year, revenue would have grown 2% on a constant currency basis. Adjusted earnings per diluted share from continuing operations for the full year was $1.90. Currency had about a $0.02 per share negative impact on earnings for the year.

GAAP earnings per share from continuing operations were $1.47, which included a restructuring charge of $0.29 per share for the year, income of $0.05 per share related to the Company's divestiture of an investment in the third quarter, and $0.19 per share of debt extinguishment costs from the first quarter. GAAP earnings per share for the full year were $1.64, which includes income of $0.17 per share from discontinued operations.

Free cash flow for the full year was $571 million, which is at the high end of our guidance range. On a GAAP basis, we generated $656 million in cash from operations. Overall, cash flow was impacted by our incremental CapEx investment in our new ERP system, lower finance receivables and the timing of tax payments.

During the year we used our cash flow to return $152 million to our common shareholders in the form of dividends. We paid down $100 million of debt, made $56 million in restructuring payments, bought back $50 million of our stock, and invested in the business. Looking at the balance sheet at year end, we had $3.3 billion of debt on the balance sheet which was $94 million less than prior year. The Company ended the year with $1.1 billion of cash on hand.

Also, stockholders equity was reduced by $128 million from prior year. This was primarily due to the re-measurement of the Company's pension and post retirement obligations, which incorporated a decline in discount rates and the adoption of new mortality assumptions.

Now I'd like to discuss the fourth-quarter results for each of our business segments. This information can also be found in our earnings press release, and the slides that we posted to the www.PB.com website under the Investor Relations section.

In North American mailing, revenue for the quarter was $376 million, and EBIT was $166 million. When compared to the prior year, revenue declined 4.2% on a reported basis and 3.6% on a constant currency basis. We expect this positive momentum to continue, as the new go-to-market efforts mature.

We continue to focus on driving productivity improvements in the Company's expanded inside sales organization and, as a result, revenue declined at a lesser rate than in the second and third quarters. The direct sales organization delivered higher productivity, which resulted in an increased average order value. Recurring revenue streams also continued to stabilize due to a further moderation in the decline of financing and rentals revenues.

EBIT margin was 44% which was a decline of 80 basis points versus the prior year, due to the mix of business and fewer lease extensions than the prior year. In international mailing, revenue for the quarter was $134 million and EBIT was $21 million. Revenue declined 9% on a constant currency basis and 15% on a reported basis. Revenue declined just 2%, excluding currency and the divested revenues I mentioned earlier.

These results are line with recent trends and the Company's efforts to stabilize overall mail related revenue. We were able to achieve these results despite the uncertain macroeconomic environment, particularly in Europe. Also, excluding the impact of the divested revenues and currency, supplies revenue continued to grow which was offset by a moderate decline in equipment sales.

EBIT margin was 16% which was an improvement of 430 basis points versus the prior year, due to the benefits from changes in go-to-market, including the shift in strategy for smaller markets and limited moves of client accounts to inside sales in major European markets during the quarter.

Turning to the enterprise business solutions group. In production mail, revenue for the quarter was $132 million and EBIT was $20 million. Revenue declined 10% on a constant currency basis and 13% on a reported basis. Revenue comparisons for the quarter were impacted by fewer large, multi-unit inserting and production print equipment installations than in the prior year. EBIT margin was 14.9%, which was an improvement of 120 basis points versus the prior year, due to the higher mix of inserting business, improved margin on service revenue and ongoing cost reduction initiatives.

In presort services, revenue for the quarter was $117 million and EBIT was $30 million. Revenue grew 9% on both a constant currency and reported basis. Revenue benefited from the improved qualification of mail for presort discounts as a result of operational efficiencies, an increase in the volume of first class mail processed and the effective implementation of the postal rate and rule changes at the beginning of 2014. EBIT margin was 25.6%, which was an improvement of 870 basis points versus the prior year, due to the revenue growth and ongoing operational productivity.

For the digital commerce solutions segment, revenue was $225 million and EBIT was $32 million. Revenue grew 13% on a constant currency basis and 12% on a reported basis. The segment again experienced revenue growth in each of its four product categories; e-commerce, software, shipping and marketing services.

E-commerce growth was driven by strong increases in the number of packages shipped and benefited from the initial ramp-up of the UK outbound cross-border services. However, the strengthening US dollar had a dampening effect on the rate of increase in number of purchases from the US over the course of the quarter.

Software revenue growth was led by a significant increase in licensing revenue, particularly enterprise location intelligence software, reflecting the success from our ongoing investments in product and channel specialization. Revenue growth in the areas of shipping solutions and marketing services resulted from new client acquisitions for the respective product offerings.

EBIT margin was 14.1%, which was an improvement of 80 basis points versus the prior year. The EBIT margin improvement reflects the benefit of earnings leverage from revenue growth, net of the impact of our continued investments in technology and infrastructure across the digital commerce portfolio. That concludes my comments on our financial performance for the quarter and year.

Now I'd like to provide some insights on our outlook as we continue to drive the transformation of the Company. 2015 represents a critical third year in our journey. It is the peak year for investment, as we complete our major go-to-market initiative, the buildout of our ERP program, invest in brand and marketing to build greater awareness of our unique capabilities. To better reflect the leverage that these activities will deliver, we are providing guidance for 2015, as well as some insights on how our strategic initiatives and operational excellence programs will impact future results.

As in the past, we are providing guidance on a constant currency basis. As we have seen in recent months, currency exchange rates are subject to substantial movement over time. Therefore, reported results may vary materially from a constant currency view. The guidance provided here assumes that the global economy and foreign exchange markets will not change significantly from current levels.

For 2015, revenue, excluding the impacts from currency, is expected to be in the range of flat to 3% growth when compared to 2014. It is important to note that on a full-year basis, 2014 included about $30 million of revenue related to our non-core product lines that we exited in Norway and six smaller European markets that we transitioned to a dealer-sales network. The impact-to-revenue comparisons reflected in our guidance for 2015 is that 1% of lower revenue growth.

To give you a sense of the impact of currency volatility on reported revenue, current exchange rates would result in reported revenue for 2015 being more than 3 percentage points lower than our constant currency range. From a sensitivity perspective, each 5% movement in the exchange rate, material to our business, would result in about 150 basis points change in reported revenue growth rate.

The composition of our revenue growth is expected to be broadly consistent with the market growth rates for our business segments as presented at Analyst Day last May. For the year, we expect double-digit revenue growth in the digital commerce solutions segment, as we continue to expand our e-commerce offerings and drive continued growth in our software, shipping and marketing services businesses.

We expect flat to modest revenue growth in the enterprise solutions group from continued growth in our presort services operation, driven by additional new clients and higher processed mail volume. This growth may be partially offset by headwinds in our production mail business, resulting from the uncertain European economy, as well as the stronger US dollar.

We expect a low single-digit decline in revenue in the SMB solutions group, as trends continue to improve and stabilize in our North American mailing business. We expect improved productivity from changes in our sales force. However, as we implement the strategy in other global markets in 2015, it may impact local results in the short term.

Turning to our EPS guidance. To provide a clearer picture of the expected underlying performance of the business in 2015, compared to 2014, we've provided a table on slide 29 of our fourth-quarter earnings slides presentation, which can be found in our Investor Relations website.

To begin, adjusted EPS in 2014 of $1.90 included a one-time tax benefit of $0.08 per share that is not expected to be repeated in 2015. That provides a baseline of $1.82 per share in 2014 for comparative purposes.

Our GAAP EPS from continuing operations for 2015 are expected to be in the range of $1.85 to $2. This reflects the benefits of growth in our business, as well as substantial benefits from our operational excellence initiative. These benefits will be partially offset by incremental investment versus 2014, specifically related to our ERP program and a higher ongoing spend on our brand and marketing activities.

These incremental expenses in aggregate are expected to be in the range of $0.15 to $0.18 per share in 2015. When adding back the incremental ERP investment of $0.07 to $0.09 per share to our GAAP EPS guidance range for 2015, the underlying operations reflecting earnings growth range of 5% to 15%, when compared to the $1.82 comparative EPS in 2014. Please note, we expect the costs associated with our ERP implementation and marketing efforts to be higher in the first half of the year, versus the second of the year. ERP spend reflects the resources for development, testing and data conversion and, in the case of the marketing expense, this is related to brand launch and awareness building activities.

The Company expects a tax rate in a range of 31% to 34% for 2015. This range is compared to a 2014 tax rate on adjusted earnings of 27.7%, which included one-time benefits that are not expected to repeat in 2015. The higher range in 2015 reflects the changes in our portfolio, as well as having closed prior year open tax audits that have given rise to tax benefits over the last few years.

Free cash flow for 2015 is expected to be in the range of $475 million to $550 million. This guidance assumes free cash flow will be primarily earnings driven in 2015. In addition, we expect our SMB financed receivables portfolio will continue to stabilize. This also assumes CapEx spending will be similar to 2014 and in the range of $170 million to $190 million, including ERP investment.

As I noted earlier, we are providing some insight with regard to our future results to highlight the leverage that our business transformation is expected to provide over the next three to five years. Over the next several years, we expect to further realize the benefits from the investments we made in 2014 and 2015. This includes benefits from fully implementing our go-to-market strategy globally. In addition, we begin to get benefits from the incremental investments associated with our brand, marketing and web efforts, which we expect to be part of our expense base in the future.

We also expect our 2016 results will benefit as we begin to reduce our investment ERP, and fully realize the $30 million to $40 million of reduced costs that I noted earlier. In addition, we expect incremental earnings from growth in revenue and operational leverage. Further, we expect the implementation of our ERP system globally to occur principally in 2016. Therefore, as previously discussed, we expect to realize substantial savings in 2017 and beyond, as part of the plan we announced at our May 2014 Analyst Day meeting.

In summary, during a complex transformation of a Company, there are many moving parts, but the take-away from our outlook is clear. We are investing and involving our portfolio to drive sustainable growth and doing so while relentlessly driving improvements in efficiencies in our client-facing and back-office processes. That concludes my remarks. Operator, can you please open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Your first question comes from the line of Ananda Baruah from Brean Capital. Please go ahead.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Hi, guys. Good morning. Thanks for taking the question. Appreciate it. I have a few, if I could. I guess, the first is, just, with regards to the North American mailing, Marc, could you just sort of walk through in a little bit greater detail where you are in, I guess the transition?

It's good to see the results actually starting to come back through the P&L. But, can you give us some sense of where you are, any kind of, I guess, sort of lack of a better term, coaching up the sales force to sell higher value-add solutions and, kind of, how far you think you have to go until you feel like you're where you want to be, not necessarily with the numbers but with getting folks ready to do that? I have a couple follow-ups. Thanks.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

I would say that we were better than the second and third quarters and that is a clear line of improvement. That said, we expect more. If you kind of unlayer the different coverage elements, I would say our face-to-face coverage is driving increased productivity and operating at this point about where we thought. Inside sales is coming up the curve, but still more to do.

And then finally, what we haven't talked a lot about is the web and, as we pointed to, we relaunched our web in January. So I would say that's the place where there's more productivity to realize. So, all in all, I would say better, but still not where we think it can ultimately perform.

Ananda Baruah - *Brean Capital, LLC - Analyst*

That's really helpful. Thanks for the detail. That's great. And I guess just commensurate with that, the $0.08 to $0.09 in expanded marketing for 2015, is this -- should we think of this as sort of a net new initiative in the context of your overall marketing initiatives, and is this an incremental $0.08 to $0.09 relative to what you've been talking about to this point?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Well, so the way to think about that is that will continue to be a going-rate expense. So, as we move to more alternative channels and indirect sales techniques, it's important to have marketing support in order to drive those things. I would codify that within your expense structures going forward that we are planning on it as a going expense.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. That's very helpful and clear. And last one from me for now, I guess ERP, I guess sort of from a dollar basis it seems like it's somewhere in the $20 million to $25 million range for 2015 in terms of investment. Maybe Mike, can you just sort of, I guess, confirm that or not? And then, is that a gross or a net investment and does that include benefits, any benefits you may begin to see this year? Thanks.

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

The number that you're quoting is right. We said it's roughly $0.07 to $0.09 incremental in 2015. So that's in addition to what we saw in 2014. Part of that is mix, where some of it is capitalized, some of it is expensed. We anticipate more of it to be expensed in 2015 relative to 2014, but that's correct if you use a rough equivalent of $0.03 -- $3 million of EBIT per share would translate into the numbers that you described.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Great. Thanks a lot.

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

Thank you.

Operator

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

Shannon Cross - *Cross Research - Analyst*

Thank you very much. Good morning. Can you talk a bit about what's going on in e-commerce? You referred from others in the industry that the stronger dollar is slowing some sales. But, sort of, what's the relationship with eBay? How aggressive is eBay being in trying to expand countries and grow that, and just how should we think about where e-commerce will probably come in this year? Then I have a couple follow-ups.

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Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Well, listen, probably questions about eBay are best answered by eBay. I would say that business continues to grow and scale nicely. It is, as you pointed to, Shannon, affected by exchange rates. So if you think about the preponderance of that business that's US outbound so, when exchange rates begin to fluctuate, that has the obvious impact of increasing the price of goods.

And what we saw in the fourth quarter is those businesses, in particular, are susceptible to those types of currency fluctuations. If you unlayer it even more, you'll get [blings] like US to Russia, where there was fairly dramatic currency impacts. Those lanes were commensurately affected. So, on balance, I would say the business continues to scale nicely. Didn't scale in the fourth quarter the way that it had the previous quarters and, thus, the overall net impact to digital commerce. That said, it's still growing well and we're pleased with it.

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

I would also note that we did launch, in the UK, Outbound in September. We did add UK to US later in the fourth quarter. So that does provide, although it's much smaller, does provide some counter-balance.

Shannon Cross - *Cross Research - Analyst*

Thank you. And can you talk a bit about milestones for ERP implementation and, perhaps, maybe the incremental expense in branding, just things we should look for as we go through the next, say, six quarters or so to see sort of where the investments are that we can sort of track to see that things are on track?

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

Sure. I'll touch on ERP first. As we cited, the incremental expense this year is really around significant portion of completing the developments, so all the design work and that is done. We're really now in the build phase of the program. There's also, in 2015, we anticipate, a lot of work relative to data and so that will be the big focus for 2015. Looking six quarters out, we expect in the latter part of that time frame to begin the implementation in a staged fashion. So we will start on a geographic basis and then roll out accordingly.

Shannon Cross - *Cross Research - Analyst*

Okay. And then, with regard to the branding, anything we can look for or is it just sort of ongoing expense?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

You will see right now a new website which, I think, is terrific and well-received by the clients. Over time, you'll see more on social media and we'll do a dose of advertising at some point this year. But as we look at the most effective tactics vis-a-vis advertising, social media seems to be the most cost effective way. There's lots of things you could point to right now, new website, new logo, but the full impact of this will be felt over some number of years.

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

I would add that the other things that are less visible from a day-to-day basis is a lot of lead generation activity. That goes on in support of our direct sales organizations as well, as well as the collateral that they have that kind of ties together with the new branding.

Shannon Cross - *Cross Research - Analyst*

My last question is just with, I'm sorry, just with regard to share repurchase, how aggressive do you anticipate being? Given the stock has been, overall stock's have been all over the market with currency and everything that's been going on. Generally speaking, with the stock in the low 20s, given the opportunities that you have in terms of leveraging what you've got in place right now, any thoughts on being more aggressive, especially with the cash balance?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

I'd say we'll continue to be opportunistic as it relates to share repurchases. Our first priority is investing in our business and, as we pointed to, are making some -- I think prudent, but some fairly significant investments in our business, whether it be the brand, the systems, and the product. We will selectively look at acquisitions that may make sense, that fit to the segments that we've described and then we will continue to return money to our shareholders.

If you look at 2014, between the dividend, the share repurchases, it was -- Mike will give you a specific number, but it was pretty close to $185 million to $190 million. We feel pretty good about the money that we're returning to shareholders. I would say again, in an interest rate environment, that's very low interest rates, we like our total shareholder return.

Shannon Cross - *Cross Research - Analyst*

Thank you very much and hope you're not getting too much snow up there.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Thanks, Shannon. Be safe.

Operator

Your next question comes from the line of Kartik Mehta from Northcoast Research. Please go ahead.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you. Mike, I was hoping you could elaborate a little bit more on equipment sales, was down double digits this quarter, and if you could maybe parse it up into what the primary components were. I know, last quarter, there was some impact because of Europe and others. Was hoping you could just provide a little more color on that.

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

Sure. If you look at it on a consolidated basis and you'd factor out currency and look at the underlying, the bigger driver to the decline in equipment sales was actually production mail. And that was driven, in part, because last year in the fourth quarter we had a couple of large deals that included both inserting as well as some production printers, which carry a fair amount of equipment revenue.

If you look at the underlying SMB equipment revenue, the other thing I should say in the consolidated is, the comparison for the product line and the markets we exited in Europe. So again, sort of equalizing for those, the underlying SMB business improved over the last couple of quarters. The equipment sales was down mid-single digits versus close to 10% in the last couple of quarters, on an apples-to-apples basis. So, it's consistent with the progress that Marc noted in terms of our overall sales force improvements.

Kartik Mehta - *Northcoast Research - Analyst*

And then, I think, Mike, you said for 2016 you anticipate $30 million to $40 million in savings, but you also anticipate reduced ERP expenses. Would that $30 million to $40 million be inclusive of the reduced ERP expenses, or is it $30 million to $40 million plus reduced ERP expenses?

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

It's the latter. It's $30 million to $40 million of incremental cost savings, based on the programs that we've identified in the fourth quarter of this year and we expect that 2015 will be the peak year for investment in ERP, because of the cost of the build process and the data cleansing process. 2016 will be principally implementation, which we expect will be something less than what we are investing in 2015.

Kartik Mehta - *Northcoast Research - Analyst*

I was hoping to get your thoughts on digital commerce. You talked about FX having an impact. I'm wondering, was there an impact at all from the inability or maybe difficulty in signing new customers, especially with the way FX is going? And then just a bigger picture, as you've now been running the business for a little while in the digital commerce, is there something you would need to add to maybe take it to the next level or is it just being patient in time?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Well, listen, we'd always like to have more clients. Our priority has been to ensure that we provide a great level of service to the clients we have already. As Mike pointed out, we brought online eBay UK in September, and ramped that up predominantly late in the fourth quarter, we added some merchant direct new clients as well. So, we've added clients there, more to do.

So, I continue to be very optimistic about that business, but it's unlike a typical software business, in that, you've got to make sure that you have the right logistics capability as you add those clients. Because you've got to be able to provide great service and I would point out that this business is a business that consistently delivers four to five [nines] of service levels. And, if you look around all the stuff you read in the press about clients that have had issues shipping, we're very sensitive to make sure that we're not on that list.

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

I would just add, we're just about at 50 merchant-direct customers at this point.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

I would say that answer, kind of, perhaps, underlines the assumption of your question. Clients still are very interested in this capability and exchange rates -- I expect exchange rates will be fairly volatile in the coming year, given everything that's going on with, kind of, divergent monetary policies around the world. That being said, global commerce is here to stay. So, you'll have some momentary disruptions in this business, but the underlying trends we continue to see are very positive.

Kartik Mehta - *Northcoast Research - Analyst*

Are you seeing any greater competition for these customers as other companies try to also fight for this business, or is the competition level the same and now it's just a matter of making sure that you have the infrastructure in place so you can provide the quality of service that your customers would expect?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

I would say that the competition for this is -- has been fairly intense and it will continue to ratchet up. That said, as we look at what's going on in the industry, what others have bought and [what not], we certainly like the way that we're positioned. We have enough intimacy with this market to know other's capabilities and we like how we're situated. So, if there was something that made sense in the space to add to the portfolio, we certainly would look at it.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of George Tong from Piper Jaffray. Please go ahead.

George Tong - *Piper Jaffray - Analyst*

Thanks. Good morning.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Good morning, George.

George Tong - *Piper Jaffray - Analyst*

Can you provide some thoughts on how you expect SG&A dollar savings in 2015 to hit as you move through the year?

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

Yes, in terms of the savings, obviously as we implement the programs that we identified in the fourth quarter, those will yield some benefits throughout the course of the year. I would say that because some of the activities are focused on the European marketplace and there is, I'll say, a more extended process to implement all of those, we would expect that this would come in over the course of the year -- throughout the year in terms of seeing the benefits.

I would note that, as we identified up front, the timing of some of the investments may be a little bit more front-end loaded in terms of both marketing as we do the initial launches of the branding, as wells as ERP, where we have a more intense period of work in the first half of the year. So there will be a little bit higher spend in the first half of the year versus the second half of the year on the investments. The benefits should come in across the year.

George Tong - *Piper Jaffray - Analyst*

Got it. Can you also provide, maybe, a little bit more of a detailed progress report on the UK eBay partnership and how large the revenue opportunity is compared to the US outbound eBay relationship?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Here's the way I think about that. The first thing, to answer your question factually, that business has scaled quicker than I would have expected. There's not a ton of existence [there ums here]. But, if you look at how the US business scaled versus how the UK business scaled, you would observe the UK business has scaled faster. In terms of the overall market, I tend to look at the overall GDPs of the various countries as kind of a proxy for relative opportunity. That's the easiest way for me to think about it, George.

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

The other thing I would note, George, is just that we are outbound to fewer markets than the US. Today it's about 17 markets versus 64 for the US. So, over the course of 2015 and beyond, we will be adding additional outbound markets from the UK.

George Tong - *Piper Jaffray - Analyst*

And along that line, can you discuss your progress in adding new marketplaces to your e-commerce platform, including new countries with eBay outbound and other potential international marketplaces besides eBay?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Obviously, we'll keep you apprised of our progress there as we have something to announce. I don't have anything different to announce right now, George.

George Tong - *Piper Jaffray - Analyst*

Okay. I guess, last question. Could you discuss measures that you're tracking to monitor sales force productivity and how these metrics progressed as you moved through 4Q and thus far into 1Q?

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Sure. Let me start with -- we tend to focus predominantly on SMB for understandable reasons. We haven't talked a lot about software and we have experienced a fairly substantial change in our go-to-market there with a much more specialized sales force. If you look at the measure that we're staring at in software, besides licensed revenue growth, which I would point to as really a strong marker for the quarter, if you look at our yield rate on deals, kind of our pipeline, our yield rate on the pipeline in the fourth quarter was almost 10 points above what it was the previous year. So that speaks to the impact of specialization as it relates to software in particular.

Within SMB, there's really a couple of different ways that we look at it. The first, and obvious, is, kind of, SG&A as a percent of revenue. So, obviously we're doing, I won't say more, but we're doing with a lot less people a similar revenue trajectory, if I could say it that way. With what we've experienced so far is better client service and, if you were to point to the USPS market share data, at least stable share to, if not, up a tick.

So, we look at a bunch of different metrics as it relates to the productivity of our sales force and we obviously get it down to a salesman level, what they're doing on a daily basis. We have great tools that we're, I would say, early innings on between sales force. com and a few other kind of adjacent tools that allows you to get productivity at a very granular level, and we're looking at it on a salesman basis almost on a daily basis.

George Tong - *Piper Jaffray - Analyst*

Thank you.

Operator

At this time there are no further questions.

Marc Lautenbach - *Pitney Bowes Inc. - President and CEO*

Thanks, operator. Let me close, then. So, hard to know precisely what 2015 is going to bring. It's clearly a rather unsettled macroeconomic environment. That being said, I like the way we're positioned. We have a geographic footprint with a strong North American presence and a much more variable expense structure in Europe.

We've got strong market positions, recurring revenue, significant initiatives to drive productivity that are already under way and significant growth opportunities with real momentum from 18 short months ago. Finally, we've got a very strong balance sheet which is the foundation of a competitive dividend and I think that's the strong part of our overall investor thesis, and we like where we're positioned from a capital allocation perspective. Bottom line, we'll see what 2015 brings from a overall economic environment, but I like the hand we're playing here, not just for 2015 but for the long run. So, thanks again for joining our call. We hope everyone in the Northeast stays safe today and we'll talk to you again in April.

Operator

Ladies and gentlemen, this conference will be available for replay after 10 AM Eastern time today through March 2nd. You may access the AT&T teleconference replay system at any time by dialing area code 320-365-3844, and entering the access code 347592. Those numbers once again are 320-365-3844, with the access code 347592. That does conclude your conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.