THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PBI - Q1 2013 Pitney Bowes Inc. Earnings Conference Call

EVENT DATE/TIME: APRIL 30, 2013 / 12:00PM GMT

OVERVIEW:

Co. announced 1Q13 revenue of $1.2b, resulting in GAAP diluted EPS from continuing operations of $0.34. Guidance was given for 2013 revenue growth excluding FX of flat-to-3%, and GAAP EPS from continuing operations of $1.77.-1.92.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Shannon Cross *Cross Research - Analyst*

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

Blaine Marder *Loeb Capital Management - Analyst*

Chris Whitmore *Deutsche Bank - Analyst*

Scott Wipperman *Goldman Sachs - Analyst*

Glenn Mattson *Sidoti & Company - Analyst*

PRESENTATION

Operator

Good morning and welcome to Pitney Bowes first quarter 2013 results conference call. Your lines have been placed in a listen only mode during the conference call until the question and answer segment. Today's call is also being recorded. If you have any objections, please disconnect your lines at this time. I would now like to introduce you to 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, IR*

Thank you and 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 2012 Form 10-K annual report and other reports filed with the SEC that are located on our Web site 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 this 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 Web site. Additionally we have provided slides that summarize most of the points we will discuss during this call. These slides can also be found on our investor relations Web site.

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*

Thanks, Charlie. Good morning. Thanks to all of you for joining this discussion of our first quarter results. As I indicated last quarter, since joining the Company, I have actively reached out to clients, shareholders, and employees. I wanted to gain their perspectives on where we are as a company, what we are capable of and importantly where we have opportunities. I've also worked with our senior management team to conduct a thorough review of the business. As we combined our in depth analysis with the insights from our stakeholders, what emerged to me was a picture of how

Pitney Bowes can deliver value on a sustained basis. We have identified actions and developed plans focused on improving revenues, managing costs, and improving working capital.

I know that one of the fundamental elements necessary to transform our business to deliver more value is to create a culture focused on disciplined execution. That is why during my first hundred days we have gone beyond the planning phase to start taking important actions that enhance the conditions for successful execution going forward. It is not lost on me or any of my colleagues that the Company needs to move forward with a greater sense of urgency than the past. We have taken several very important steps including the announcement of a number of new management appointments, moves to strengthen our balance sheet and increase our financial flexibility, and reposition our business portfolio by exiting non-strategic businesses. Today we announced another action designed to unlock the value of the Company.

In order to provide financial flexibility to invest in what I believe to be compelling opportunities and to enhance our capital structure, the Board of Directors has reduced the dividend on our common stock to $0.1875 per share. As I described in our last earnings call, any decision regarding the dividend will be made in the context of our overall strategy with the objective to improve total shareholder return, and that is precisely what we have done today. I believe that today's action is a critical component in our goal of providing competitive and sustained returns to our shareholders. I'm looking forward to sharing more about our plans for sustainable value creation in our analyst day discussion later this week. Today's focus, however, is on the quarter.

Our results featured a mixture of growth in some businesses, progress in newer areas where we have identified long-term growth potential, and opportunities for improvement in other areas. There was revenue growth in production mail and mail services, flat revenue in international mailing, and continued moderation in the decline of reoccurring revenues in our SMB group. The revenue growth in mail services resulted from increased cross border shipments during the early stages of implementation with our partnership with eBay. We had weaker revenue and EBIT results than expected in our software segment due in part to sales effectiveness issues. We believe we have substantial opportunities in those software markets and have taken actions to capture those opportunities including changes in leadership.

All in all, our mixed results this quarter show that we're not operating at our full potential. It is clear to me, and I know to all of you, that we need to transform Pitney Bowes. It is equally clear, however, that while we transform, we must up our game with an increased sense of urgency to execute in a focused and disciplined manner.

Let me now turn it over to Mike to lead a more detailed discussion about our first quarter results.

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

Thank you, Marc. This morning we reported results for the first quarter of 2013. As Marc indicated, during the quarter we had revenue growth in two of our business segments and flat revenue in a third. I'll discuss the trends in the business in more detail as I take you through the results of each of the business segments.

For the first quarter revenue totaled $1.2 billion, a decline of 4% compared to the prior year on both the reported and constant currency basis. Revenue benefited from growth in our production mail and mail services businesses. Revenue in international mailing was flat compared with the prior year. In addition, we continue to experience a moderation in the decline of recurring revenue streams in the SMB group. Revenue was adversely impacted by weakness in our software segment, pricing pressures and management services segment and to a lesser extent by the decline in the marketing services segment. As I indicated when we provided guidance at the beginning of the year, we anticipated the first half of the year would be weaker than the second half as we continued to invest in our growth initiatives and start to realize more of the benefits of those investments in the second half of the year. Additionally, we expect that the decline in recurring revenue streams in mailing will be less of a headwind in the second half of the year.

Adjusted earnings per share from continuing operations for the quarter were $0.42, compared with $0.52 per share in the first quarter of 2012, which excludes an $0.11 per share tax benefit related to favorable tax settlements in 2012. GAAP earnings per diluted share from continuing operations for the first quarter was $0.34. GAAP EPS from continuing operations included a charge of $0.08 per share for costs related to the retirement of approximately $405 million of debt that was originally scheduled to mature between 2014 and 2016. GAAP earnings per share from continuing operations exclude a loss of $0.01 per share from discontinued operations, which was related to the completion of the sale of the US portion of the international mail services business. Adjusted earnings before interest and taxes, or adjusted EBIT, was $176 million this quarter, and the adjusted EBIT margin was 15.1%.

Adjusted EBIT this quarter included an incremental investment of $3 million for Volly versus last year and approximately $4 million for infrastructure and related start up costs associated with our e-commerce growth initiative. Last year's EBIT margin benefited from a $7 million insurance reimbursement related to the Dallas facility fire. Adding back to appreciation and amortization, adjusted EBITDA for the quarter was $233 million or $1.15 per share. Selling, general and administrative expenses for the quarter was $377 million, a decline of $28 million or 7% versus the prior year. As a percentage of revenue SG&A was 32.3% which was a 90 basis point improvement versus the prior year. SG&A continues to benefit from ongoing productivity initiatives and improving credit loss trends. The improvement in our SG&A highlights the success of our strategic transformation program. We continue to identify further opportunities to reduce costs and streamline the business. Consistent with our goal to enhance our operation excellence, improve our client experience, and variablize and reduce our cost structure across the business, we are identifying additional actions we can implement in the future.

Net interest expense, which includes financing interest, was flat to the prior year. The average interest rate this quarter was 4.9%, which was 13 basis points higher than the prior year. However, average outstanding borrowings during the quarter were $107 million lower than the prior year. The effective tax rate on adjusted earnings for the quarter was 29.4% versus 19.5% last year. The tax rate last year benefited from the favorable resolution of certain matters with tax authorities.

On the balance sheet and cash flow, free cash flow during the quarter was $107 million and on a GAAP basis, we generated $132 million in cash from operations from the quarter. We returned $75 million of cash to our common shareholders in the form of dividends and had $16 million of restructuring payments related to our previous restructuring programs. As expected, our cash flow this quarter was less than last year, in part due to the cash benefit we got last year as a result of settling certain tax issues. We continue to actively manage our working capital requirements and have taken actions to maintain a strong and flexible balance sheet. We had $4 billion of debt on the balance sheet at the end of the quarter which was $228 million less than the first quarter last year. As we indicated previously, we intend to retire the $375 million of debt that's maturing in June using cash on the balance sheet.

During the quarter we issued $425 million of 30-year retail debt that's callable at par after five years. We used the proceeds of these bonds to retire our approximately $405 million of debt that was scheduled to mature in 2014 through 2016. By extending our debt maturities and reducing the amount of debt that's coming due over the next several years, we've enhanced our financial flexibility. These actions, along with the dividend change, provide the capital balance investment in the business, the return of capital to shareholders, and the ability to retire and refinance future debt maturities which combined will drive shareholder value creation.

Now I'd like to discuss the first 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 pb.com Web site under the investor relations section. North American mailing revenue for the quarter was $430 million and EBIT was $155 million. North American mailing revenue declined 7% versus the prior year and was impacted by lower recurring revenue streams. However, we've seen a continuation of the moderation and decline for these revenue streams when compared to the prior year. There was also a decline in equipment sales versus the prior year as customers delayed making purchase decisions for some high end equipment. EBIT margin was lower than the prior year due to lower revenue and placements of newer equipment at lower margins in lieu of signing lease extensions on equipment.

International mailing revenue for the quarter was $167 million and EBIT was $18 million. Year-over-year revenue was flat on both a reported and constant currency basis. Revenue benefited from sales of our Connect Plus mailing systems in France and Germany and revenue related to a postal rate change in France but was negatively impacted by lower revenue in the UK due to the continuing weak economy. EBIT margin was unfavorably impacted by-product mix and currency changes mostly related to the yen which negatively impacted equipment costs. EBIT margin benefited from the high margin revenue related to the postal rate change.

Turning to the enterprise business solutions group, production mail revenue for the quarter was $119 million and EBIT was $3 million. Production mail revenue increased by 3% year-over-year on a reported basis and by 4% excluding the impacts of currency. Revenue for the quarter benefited from several large production print installations, as well as initial licensing revenue from Australia Post for our Volly digital mailbox platform. The business again finished the quarter with a higher backlog of orders than the prior year. The higher backlog was due to the scheduled timing of installations for several large inserting equipment orders, as well as some production printers. It is expected that this backlog will help us continue to drive revenue in future periods. EBIT margin improved because of the higher revenue and productivity initiatives but was partially offset by lower relative gross margins on production print sales and increased investment in Volly. Production mail margins would have been about 400 basis points higher this year if the net investment in Volly was excluded.

Software revenue for the quarter was $81 million and EBIT was $5 million. Revenue declined 20% on a reported basis and by 19% on a constant currency basis. The software business experienced weakness in the Americas during the quarter as a result of some deferred license deals. The business also experienced lower revenue in Europe and Asia because of the ongoing economic uncertainty in these regions and the austerity measures in the public sector of many countries. The prior year also benefited from a large licensing agreement with Facebook for global location intelligence applications. EBIT margin declined when compared to the prior year because of the decline in revenue and the continued investment in product development. We're focused on improving the revenue opportunities in EBIT growth in this business given our excellent products and substantial and growing end markets. We recently appointed new leadership, as Marc mentioned, to focus on building revenue pipeline and improving our effectiveness in closing deals.

Management services revenue for the quarter was $225 million and EBIT was $13 million. Revenue declined 2% on both a reported and constant currency basis due to pricing compression on contract renewals. EBIT margin was essentially flat with the prior year as a result of productivity benefits nearly offsetting the decline in revenue impacts. In April, the business signed two large multi-year contracts for document processing which should enhance revenue growth in future periods.

Mail services revenue was $119 million and EBIT was $19 million. Revenue for the quarter grew 4% driven by early stage growth of revenue from our e-commerce initiative. E-commerce is expected to continue to ramp up throughout the remainder of the year as we expand cross border shipping destinations with a target of more than 80 countries by year end. Revenue from pre-sort operations was relatively flat this quarter resulting from a similar amount of mail that was sorted compared to last year. Year-over-year EBIT comparisons were negatively impacted by the $7 million of insurance proceeds we received in the first quarter of 2012 related to the pre-sort facility fire. Also, EBIT from mail services this quarter included $4 million of incremental investment and infrastructure cost to build capacity from our e-commerce offering.

Marketing services revenue was $25 million and EBIT was $2 million. Revenue and EBIT declined due to lower marketing fees related to certain marketing categories for the mover source program and fewer household moves than the prior year. That concludes my comments on our business performance this quarter. I'd now like to update you on our 2013 guidance.

As we indicated when we initially provided guidance, we expect the second half of the year to have better relative results than the first half of the year, and that is still our expectation. We continue to invest in growth initiatives which are expected to have more of a positive impact on revenue and margin in the second half of the year. We also believe there will continue to be moderation in the rate of decline for the SMB recurring revenue streams and therefore, they'll have less of a negative impact on revenue and earnings in the second half of the year. Based on these assumptions, we still expect revenue excluding the impacts of currency to be in the range of flat to 3% growth when compared to 2012. Adjusted EPS from continuing operations to be in the range of $1.85 to $2 which excludes the $0.08 per share charge related to the costs associated with the recent debt tender. Free cash flow to be in the range of $600 million to $700 million.

We're updating our GAAP EPS from continuing operations guidance to be in the range of $1.77 to $1.92 which includes the $0.08 per share charge related to costs associated with the recent debt tender that I just discussed. This guidance excludes any further actions that are planned or under consideration to streamline our operations and further reduce our cost structure. We expect interest expense to increase about $10 million, or $0.03 per share, over the balance of the year related to the interest rate differential between our recent $425 million debt issuance and the debt tendered. We'll provide more information regarding our plans and the expected financial impacts at our May 3 investor update meeting.

That concludes my remarks. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Hi, thank you very much for the questions. My first question is can you just give us a little more color on what's going on within software because obviously the pressure there was substantial, and I just -- Marc, I'd like to know your thoughts, especially given your background, in terms of how you expect that division to sort of improve and how much of this obviously is economic versus maybe some holes in the portfolio. Just any color you can give there would be helpful and then I have another one.

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

Thanks, Shannon. And we'll give more color on this on Friday, but let me start with a little bit of context. First of all, you know our business well, and you understand that some of our most important digital opportunities are outside of the software business currently, whether it be our initiative around Volly, or our shipping initiative around eBay. So I think that's important context because I do think that the digital opportunities are important growth opportunities for us going forward.

My analysis of the software business is as follows. First of all, I do believe we've got good technologies. I don't think we've made the level of investments that we need to in all those products but in general I would characterize our products as good, if not leading edge, but there's more opportunities we can do to differentiate ourselves there. As I digest the first quarter results, my bottom line on software is it was around sales execution, and I am confident that the new leader will make a difference. Certainly it's going to take him a while to sort through the things that need to get done, but I think he has very relevant experience in terms of putting together disparate businesses into a level of coherency that will allow us to move forward and very importantly has very strong sales credentials.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. And then could you talk a bit about the -- in SMB, obviously you're expecting, how do I say this, diminishment of the pressure --

---

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

Yes.

Shannon Cross - *Cross Research - Analyst*

From the recurring revenue declines as we go through the year. But can you talk about what you're seeing on -- from an end user demand standpoint? I'm interested in the fact that you mentioned that the pressure on EBIT came somewhat from higher equipment sales versus lease push outs. So what are your customers telling you in terms of their interest in how much are some of the online services that you're now providing for SMB sort of helping to make the discussion easier?

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

Yes, Shannon. It's Mike. A couple of things to your questions. One on the lease extension versus new equipment sale, that's been a very deliberate program on our part to place more new equipment, and as you know, that has somewhat less of a positive margin impact, still very good margin, but less than a lease extension because there's a new piece of equipment involved. But we believe that, that presents us more opportunity to build recurring revenue streams over time, particularly when you get into products like Connect Plus that has color ink opportunities and greater ink usage opportunities, as well as other applications that we can deliver to the customer. So we believe and have been shifting to a greater focus on new equipment placements. We saw the positive impact of that particularly in the international segment as well.

In terms of other digital products, we are seeing a base of customers grow at the low end where we've integrated our low end meter with digital postage applications, and so that will build a recurring stream over time. It's part of the reason why we anticipate continued improvement in the recurring revenue streams as we go forward. Part of it is really the rollover of the lease space, as well as the addition of some of these other opportunities to grow recurring revenue streams.

Shannon Cross - *Cross Research - Analyst*

Great and my last question, because I would be remiss if I don't ask, in the release you don't mention share repurchase. Is that something that's still on the table and don't want to steal the thunder from Friday but I'm just curious as to how you're thinking about a restart of that program?

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

Shannon, it is on the table. It is one of the tools that we have at our disposal to drive shareholder value, so we will use it opportunistically going forward.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you very much.

Operator

Ananda Baruah, Brean Capital.

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

Hi, thanks guys, thanks for taking the question. Yes, Marc and Mike, given the guidance, the reaffirmation of the guidance and based on the comments in the press release and on the call so far, sounds like there might have been a tad bit slower start to the year than you had expected and given the second half weighted nature of the guidance, could you just give us a sense of how you see the drivers unfolding that can get you into the middle of the EPS range and into the revenue growth guidance range for the year? Thanks.

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

Good question. In terms of the revenue for the first quarter, I would say if there was something that was outside of our expectations it was the software performance, and Marc talked to what we would do to address that. As we look forward in terms of revenue drivers, we have a handful of growth initiatives that we have been investing in, e-commerce is one and we're beginning to see some benefits from the early stages of that. We have the print out sourcing and document managing solutions in PBMS that we have been investing in. We noted some additional revenue from Volly licensing revenue related to Australia. The fact that we expect recurring revenue streams to continue to moderate in the mailing business will be a contributor as well and as we noted, production mail continues to have a strong backlog and that should contribute to revenue as we go out in the year. So those are the things we're looking towards as we look at our overall guidance.

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

And, Mike, how much do incremental cost savings opportunities play into the guidance at this point?

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

We talked about, at the beginning of the year or actually at our fourth quarter earnings announcement, some initial actions we were taking. I think you're beginning to see the benefits of those in terms of our first quarter performance where SG&A was down about 7% year-over-year. We'll continue to take a disciplined approach to implementing those types of actions and we're continuing to look at that, and we'll talk more about that on Friday.

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

Okay. Got it. And just based on -- sounds like the core business, sort of -- you're seeing the same sort of trends in the core business and sort of the recurring revenue streams beginning to continue to improve. Is it really just a matter of getting some of these new initiatives to kind of hit stride and catch? Do you expect some of that, it's sort of like an ongoing confluence of things, but can we expect revenue growth to turn positive potentially in the September quarter? I feel like that probably needs to happen to really kind of get you within earshot of the -- some of the revenue growth guidance range.

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

Obviously we don't give quarterly guidance but for the full year at the flat to plus 3, it would suggest that we're going to have to have some positive quarters out in the year.

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

Got it. Last one for me guys, the cash flow, can you just talk about the levers on the cash flow for the quarter? It's a little bit light relative to my model. You obviously don't give quarterly guidance there since the full cash list statement isn't out yet. If you can just sort of talk about the moving parts there I think that would be useful. Thanks.

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

Sure. I think just to boil it down quite simply if I compare it to prior year, virtually all the difference is related to the fact that we received about $70 million of tax refunds last year related to some of the tax settlement items that we had. That's the bulk of the difference on a year-over-year basis. Obviously earnings were a little bit lower, but our working capital performance was better so those sort of offset one another. So that's why we're comfortable reaffirming our guidance for the full year.

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

Got it. So other than that, you're sort of right where you expected to be?

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

That's correct.

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

Thank you very much.

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

Thank you.

Operator

Blaine Marder, Loeb Capital Management.

Blaine Marder - *Loeb Capital Management - Analyst*

Good morning, Marc and Mike. First a quick question for you Mike, on the software, you guys cited both sales execution issues but also a delay in some deal signings. The signings that were delayed, would you expect those to close in the second quarter?

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

That's an area of focus for the new management and that's absolutely what we're driving for.

Blaine Marder - *Loeb Capital Management - Analyst*

Okay. And then, Marc, longer term and perhaps you addressed this on Friday, but if you look across the enterprise business, a lot -- there's a lot of revenues but the dollars on the margin side are just very, very low when compared to the revenue base and I know you're doing a fair amount of investing and that's even more so in the first half. But ultimately, where are you headed in terms of what business we want to be in on this side of the business and what sort of margin profile we might expect and hopefully it would be certainly higher than it is today?

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

Yes, in general we're trying to invest in areas which we think are accretive to the overall model, so read that as software. If businesses have lower margins than the portfolio, then they're going to have a very hard time competing for capital internally, so we're all about value creation. You do that where you've got differentiation, where you can drive value for your clients and that's where we'll make investments.

Blaine Marder - *Loeb Capital Management - Analyst*

Okay. Thank you.

Operator

Chris Whitmore, Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

Thanks very much. Marc, I wanted to ask your initial thoughts around the Company's cost structure and here's the aspect in which I'm asking. A former employer spent about 20% of revenue on SG&A, Pitney Bowes is spending north of 32% of revenue on SG&A. Is there an opportunity for a structural transformation of Pitney's operating cost structure or is something in the low 30s what you would view as a sustainable level of spend or an ongoing level of spend?

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

I think there's important opportunities to improve our routes to market. If you look the Company's, Pitney Bowes' primary route to market it's around a face-to-face sales force. We have not utilized alternative channels, which other industries and companies have used extensively to reach the marketplace, things like tele, things like the Web. I think those are important opportunities for us to not only fundamentally recast our SG&A, but importantly it's a great opportunity to provide better client service. So it's one of those great paradoxes where you have an opportunity to not only fundamentally shift your cost structure, your expense structure in this case, but to provide better client service. And to your point about my former employer, we're benchmarking ourselves inside of Pitney Bowes, not just against others in our industry for SG&A but others that serve the SMB marketplace, whether it be SG&A, DSO or inventory.

So we're trying to find best of class providers that serve the SMB marketplace or the software market or whatever market that we're pursuing and benchmarking ourselves. That's how we're thinking about driving the opportunities going forward. So I think your question is right on point, right where we've discussed. As Mike indicated, you've already started to see the SG&A come down. I would point out that this was preceded me, if you look at the rolling four quarter average it's been coming down for a bit, but I do think there are substantial opportunities to recast our SG&A. And by the way, to the leadership changes that Mark Shearer who recently joined our company came from IBM, ran a business that was very oriented towards SMB and understands intimately how to use these new channels.

Chris Whitmore - *Deutsche Bank - Analyst*

That's very helpful. Thanks very much and to follow up, are there any sacred channels within the organization? In other words, are you looking at perhaps legacy cost structures and legacy businesses and considering the portfolio from a top to bottom standpoint in terms of potential asset sales, this investment, et cetera, going forward? And I wanted to and specifically around Volly, do you think there's a return at the end of this investment cycle with that product? Thanks.

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

The only sacred cow in my mind is our client and our shareholders, and everything that we do will be oriented towards driving value to those two means. There are no sacred businesses. What I have said before is in order for businesses to continue to be part of the portfolio, they need to meet three conditions. First is they need to be strategically coherent. Second, they need to be a leader within their respective markets and third, they need to earn a respect -- a return that is acceptable to the overall business.

In terms of your specific question about Volly, I would begin by pointing out that we have made progress, continue to make progress with Australia Post. It is one and I stress this clearly, one of our growth opportunities, and it will compete for capital along with every other initiative. It is not sacred. It is all about does it provide value for our clients and provide value for our shareholders. It's the great advantage of coming in without any particular interests or agenda.

Chris Whitmore - *Deutsche Bank - Analyst*

Got it. Thank you. Last one from me I wanted to ask a little bit more about the US mailing business. It looked like North American equipment sales were down somewhere in the range of 5% plus or minus in the quarter. Despite a shift towards less lease extension, more equipment purchasing, I wanted to get some color around that North American equipment business. How do you expect that to play out over the next few quarters? Do you think North American equipment can return to growth or do you think it can grow this year and how does the lease cycle look? Thanks a lot.

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

In terms of, start with the last piece, the lease cycle, I think is consistent with what we've seen over the last several quarters so we don't see any unusual changes there in what's available coming through at the end of the leases. Equipment sales were down a bit in the first quarter in North American mailing. We did have a couple of marketing program changes late in the quarter that probably had some impact. So we anticipate some improvement as we go forward but it will be a quarter by quarter review.

Operator

Scott Wipperman, Goldman Sachs.

Scott Wipperman - *Goldman Sachs - Analyst*

Thanks for taking the question. I realize you may tackle this on Friday, but I'll give it a shot. On the dividend cut and the expected savings you guys are going to generate, do you have an outline or something you can share with us maybe about how much you expect to allocate to investment versus M&A or improving the balance sheet?

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

Yes, in terms of the dividend change it's about $150 million of capital that we will have available. We don't have a specific formula for allocating capital. It will really be based on the specific opportunities in the business for organic investment. We look at acquisition or inorganic investment as something that, as Marc described, it really has to add value to the overall portfolio. And then we will talk on Friday about the balance sheet and our ongoing focus on making sure that we maintain investment grade ratios around the business. So it will be a balanced approach that will continue to provide us flexibility for investment in the business, but we don't have a specific formula on how we will apply that.

Scott Wipperman - *Goldman Sachs - Analyst*

Got it. Okay. And then maybe just on the international mailing. Is there more markets that you guys expect to launch Connect Plus in outside of Germany and France that we've seen some of the benefit from?

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

Yes, we're in most of the major, largest markets with Connect Plus. One market that we do see some opportunity in we don't have the product approved there yet is in Brazil, but beyond that we're in the major markets that we would expect to see significant benefit from Connect Plus.

Scott Wipperman - *Goldman Sachs - Analyst*

Got it. Okay. Look forward to Friday. Thanks.

Operator

Glenn Mattson, Sidoti and Company.

Glenn Mattson - *Sidoti & Company - Analyst*

The software business, you cited two reasons for the weakness, the deferred license deals and also that Europe was weak. I was curious if it was equal parts of both or what the magnitude of each was. And also that you mentioned that maybe you haven't made as much investment in the software business as needed. Do you see yourselves doing acquisitions in that space or is it more just investment in the current products?

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

In terms of the impact on revenue, there wasn't a significant difference between the referred deals. And in Europe in particular, we have a fairly good sized business with government agencies where they use our technology around asset management and that, so that's where obviously the weak economic environment has impacted that. We continue to invest in the products in the software business. As Marc noted, there are some areas where we may reallocate that investment where we see particular opportunity. We'll talk a little bit more about that on Friday where we see strong opportunities in software space.

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

Let me just add a little bit of color on that particular point. As we go through the portfolio, we'll invest in places where we have a clear path to leadership. That means that if we don't have leadership today, we can, with pretty clear certainty and visibility, make the necessary investments to get there. If we don't see that, then we will reallocate those dollars, those investments to places where we do. It's just a very logical approach to the portfolio. So we're very focused on places where we can really drive differentiated value for our clients and for our shareholders ultimately.

Glenn Mattson - *Sidoti & Company - Analyst*

Okay. Thanks. Maybe some more on that on Friday. And in Volly, are we still looking at a 2013 launch for US?

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

Well, I would say yes. That said, we are continuing to work on the right business model to ensure that what we do actually is accretive to our shareholders, drives the kind of value for our clients that we can. So as I said, there are no sacred cows going forward. We are fine tuning the business models. I fully expect that Volly will have a different business model in different countries and we'll continue to work through that.

Glenn Mattson - *Sidoti & Company - Analyst*

Okay. Great. That's it for me. Thanks guys.

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

Thank you.

Operator

(Operator Instructions)

Ananda Baruah, Brean Capital.

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

Hi, guys. Thanks for taking the follow up. This is certainly going to be a topic at analyst day that I'm going to ask about but I want to take a cut at it now. How should we view the context of what's been to this point a pretty firm commitment to sort of investment grade rating I suppose now that there is -- sounds like there's this commitment to revenue growth as well? If you guys find yourselves sort of -- I appreciate Marc, your comments around sort of fighting for capital. To what extent does the balance sheet have to fight for capital going forward when we think about commitments in investment grade rating relative to what sounds like a commitment to growth initiatives? Thanks.

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

We have a commitment to investment grade ratios and we consider the balance sheet a very important tool to not only finance our business but to provide us the flexibility going forward. So the notion of having investment grade ratios continues to be a cornerstone of our corporate financial strategy.

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

That's very helpful. Thank you. I appreciate that. And I'll sneak one more in. Just on e-commerce, can you talk about what you guys see as being the opportunity there away from eBay as you move forward here? Is it a situation where you think you're going to have, I don't know, maybe a handful of key e-commerce partners or do you think that this is really a broader, a much broader market opportunity for you guys going forward?

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

We are going to feature this on Friday, and we're bringing Craig Reed in who runs the business to actually be one of the presenters, so on that particular question I think we can defer it to Friday. But suffice it to say, we see the opportunity as much broader than just eBay. The technologies that are underneath the set of capabilities have brought applicability and solve a really important problem for any company that does cross border shipping.

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

Got it. Thank you very much.

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

Thank you.

Operator

We have no further questions.

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

All right. Thank you everyone. We'll see you on Friday.

Operator

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