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PBI - Q1 2019 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 revenues of $868m, gross profit of $389m, and GAAP EPS (loss) (including certain items) of $0.01. Expects 2019 YoverY revenue growth (excluding impacts of currency) to be 1-3% and adjusted EPS to be $0.90-1.05.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes First Quarter Earnings 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 participants on today's conference call: Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President and Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations.

Mr. David will now begin the call with the Safe Harbor overview.

Adam David - *Pitney Bowes Inc. - VP of IR*

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our earnings press release, our 2018 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 and the tables attached to our press release and also on our Investor Relations website. Additionally, we have provided slides that summarize many of the points we will discuss during the call. These slides can also be found on our Investor Relations website.

Now our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

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

Thank you, Adam, and good morning, everyone. I'd like to focus my comments on our performance in the quarter. As with every quarter, there were pluses and minuses. Stan will take you through the financial details, but I'd like to address our performance versus our expectations, starting with revenue.

Revenue was down 1% to prior year, excluding impacts of currency and previously announced international SMB market exits. Overall, revenue was in line with our expectations.

Looking at earnings. Our overall results were not where we wanted them to be to start the year. Our operational profit performance was largely what we expected in SMB and Software, however, there were a few areas that impacted earnings that I'd like to drill down on and discuss as they were the material deviations from what we expected in the quarter.

The first of the charts that we recorded in the North American Mailing segment related to a tablet replacing program to address a battery longevity issue, which also included upgraded technology and our SendPro C. Stan will take you through the details, but this resulted in a $9 million or $0.03 charge in the quarter and was not anticipated at the start of the year. It is important to note that excluding this charge, North America Mailing EBIT margins would have been 37.8%, which is more in line with our performance over the last 4 quarters.

Turning to Global Ecommerce. To a smaller degree, profit underperformed their expectations in the quarter. Part of the miss was due to a delay in the approval of one of our National Service Agreements, or NSAs, with USPS. The USPS is an excellent partner and this NSA has subsequently been approved. It just took longer than we thought and as a result, we incurred higher-than-expected shipping rates in the quarter.

Additionally, productivity around labor and transportation were not what we expected in the first 2 months, but improved upon exiting the quarter. As a reminder, when we opened our agreement with Indiana facility last September, productivity was understandably low. That said, productivity has subsequently increased and is higher than earlier in the year. This is a positive harbinger for the power of automation across the rest of our network, particularly as we continue to expand operations and open new sites.

Business mix also impacted Global Ecommerce in the quarter. This segment is comprised of different capabilities, Cross-Border, Fulfillment, Delivery, Returns and APIs. And these all come with different margin structures. We continue to balance getting the scale and managing the mix of these different businesses.

I would characterize the profit dynamics in e-commerce, partly as onetime in nature and the balance being growing pains. However, they were not structural. Going forward, we will take actions to be more purposeful in driving mix and productivity. We remain focused and excited about the long-term opportunity for us within this business. E-commerce is a large and growing market, where we have strong value proposition.

The other item impacting earnings, which drove the proponents of the shortfall from expectations in the quarter, was around execution of steps within our Presort business. Last year, we engaged a third-party consultant to help address issues around productivity and pricing within the Presort business. This business continues to be pressured by the transportation and labor market. We've talked about investments and automation in this business and leveraging our Newgistics network to help address the higher costs. We are confident that our work with the consultants along with these investments will yield future benefits. Also, within Presort, in the first quarter, our volume of mail processed went up, but our revenue per piece went down as we're seeing a mix of mail shifting to higher-volume clients. The third-party consultants are working with us to ensure that we are capturing value commensurate with the value that we're delivering to our clients. As the quarter progressed, we began to successfully layer in a new pricing strategy, although some of the changes came too late in the quarter to make a difference. We'll continue to layer in our pricing strategy over the coming months.

I would squarely identify the issues we experienced within Presort in the quarter as execution issues. I am confident that over time our actions will take hold and improve performance to move this business back to the long-term margin profile, but it is taking longer than expected.

I now want to go back to the top line because that is the best indicator of our long-term success. In SMB, we continued to place our SendPro C in the market and since launching, now have nearly 85,000 units placed with scheduled launches in several international markets over the next few quarters. During the quarter, we also announced the launch of the Wheeler Financial, a subsidiary of The Pitney Bowes Bank. We've been working on this for a year, looking at right talent, networking operations in place and building pipeline. Wheeler Financial will help clients purchase equipment critical to their industries in which they operate. Leveraging our economies of experience with 40-plus years of equipment financing and 20 years in banking, we're expanding our offering to help our clients grow their businesses. Similar to what we're doing in the shipping space, this is a natural adjacency and truly representative of the company's long-term strategy.

In our software business, last year, we recognized a very large deal in the first quarter. This year, we did almost the same amount of revenue without the benefit of a large deal of last year's significance, and our channel efforts are continuing to pay off. It is worth noting that our Commerce Services business is now our largest revenue segment group. And our Global Ecommerce business revenue ramped through the quarter, and we exited the quarter with a strong revenue performance, which should continue in the second quarter. Likewise, we continue to add new logos and the churn in our Newgistics business to climb substantially on a year-to-year basis. Both of these dynamics indicate we are something that the market wants. To that end, there were meaningful advances to our capabilities in our Global Ecommerce business. We added to our network and announced 2 differentiated capabilities that the market has been clambering for. The first was we announced a pilot to create a 2- to 3-day guarantee delivery product, that will be fast and much more affordable than alternative offers. This will help retail clients better compete in an increasingly competitive marketplace. This capability is based on our decades of knowledge of moving mail and deep data science capability, which we have developed over the last several years. This is what we mean when we talk about leveraging our scale and our experience.

Secondly, we announced a branded experience for our clients as it relates to tracking shipments. Simply put, this will help clients to put their brand in front of customers' activities to track their shipments. Today, this is primarily done through the logistics providers' websites. Result is the retailer marketplace loses control of what is one of the most important experiences in the world of e-commerce. The combination of these 2 capabilities will be a game changer for our clients as a meaningful step forward in our ambition to take the complexity out of shipping. On a side note, a few weeks ago, I had the opportunity to participate in our e-commerce client event, Retail Revolution. There were over 200 attendees and it was a Who's Who of retailers and marketplaces. They were only there for one reason: Pitney Bowes is building something that the market needs and wants. It was remarkable to reflect that 4 years ago, our Global Ecommerce business was one capability with one client.

To summarize, we expect revenue to growth this year, making the third consecutive year of growth, which is an indication of the capabilities we've created and the future we're aspiring to. I'm not pleased with our profit performance for the quarter. However, the execution issues we encountered are within our control to fix and going forward, we will fix them. Some were easy and some will take longer. As a result, we're updating our 2019 guidance, which Stan will take you through in more detail.

With that, let me now turn the call over to Stan.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Thank you, Marc, and good morning. Our first quarter overall revenue results were in line with our expectations. However, our earnings performance fell short. Before I discuss the details of our first quarter, it's important to note a few items. First, as in the past, unless otherwise noted, my statements going forward will be on a constant currency basis when talking about revenue comparisons and on an adjusted basis when talking about earnings-related items, including cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the financial statements posted with our earnings press release and on our Investor Relations website. Second, our results reflect the new lease accounting standard, or ASC 842, which was implemented on January 1. Results in both current and prior periods reflect this new standard. We have posted a file on our Investor Relations website with the recast financials as they relate to this lease accounting change.

Additionally, we also determined that certain costs previously classified as R&D should be classified as the cost of revenue or SG&A expense. Prior period financial statements have been recast to conform to the current period presentation.

And finally, we previously announced the sale of our direct operations in 6 smaller European markets. This transaction does not qualify for discontinued operations treatments. And as such, prior year has not been recast. It will therefore negatively impact our revenue comparison to prior year by about 1 point, which is reflected in our guidance.

Turning to our results. We continued to make progress against our long-term objectives in the first quarter. The portfolio continues to shift to higher-growth markets. Commerce Services comprised 46% of revenue, which is the second consecutive quarter, where it was the largest component of our overall revenue.

Our shipping-related revenues made up roughly 1/3 of the total revenue in the quarter and that contribution continues to grow. For the first quarter, revenue totaled $868 million, which was a decline of 2% from prior year. When you take the market exits into consideration, revenue declined 1% from prior year.

Looking at revenue by group. Commerce Services grew 6%, Software declined 2% and SMB declined 7% when you exclude the impact of currency and market exits.

Adjusted EPS was $0.12 for the quarter. GAAP EPS was a loss of $0.01. GAAP EPS includes a $0.10 loss related to the market exits, which was primarily driven by the write-off of accumulative translation adjustments. GAAP EPS also includes charges related to discontinued operations, transaction restructuring costs, each charge being about $0.01 per share. Versus our expectations, EPS for the quarter was impacted predominantly by a weaker performance in our Presort business, due to execution around productivity as well as pricing. And to a lesser extent, e-commerce fell short of our expectations.

In addition, there were 2 unusual items impacting the quarter, the first being a charge of $0.03 per share related to a tablet replacement program to address a battery longevity issue for our SendPro C. The replacement not only addresses the battery longevity but also provides clients with our latest technology, including a memory upgrade and a better user interface. This issue was identified during the first quarter, and we continued to work through this item both with battery experts and suppliers. Through our analytics, we can predict the life cycle of the battery and to head off any potential disruption, we are upgrading the displays, resulting in the $9 million or $0.03 per share charge.

The other item impacting EPS, albeit to a lesser degree, was the delay in the approval of one of our NSAs with the USPS, which has subsequently been approved.

Free cash flow was $32 million and GAAP cash from operations was $70 million. Compared to prior year, free cash flow was lower, partly due to the decline in net income and the timing of reserve account deposits, which was offset by the timing of working capital.

Looking at capital allocation. At the end of the quarter, we had $904 million in cash and short-term investments on our balance sheet. During the quarter, we used free cash flow to return approximately $49 million to our shareholders. We repurchased 5.6 million shares for $39 million, and we paid $9 million in dividends to our common shareholders. We also made $8 million in restructuring payments and spent $29 million on capital expenditures.

From a debt perspective, we ended the quarter with $3.25 billion in total debt, which is $321 million lower than prior year.

Let me give you a little bit more context on our debt composition. Overall, debt was $3.25 billion. And if you take the implied debt of $1.1 billion associated with our finance receivables along with the $0.9 billion of cash and short-term investments on the balance sheet into account, our implied net debt position on an operating company basis was about $1.2 billion at the end of the quarter.

Looking at the P&L. Starting with revenue performance by line item as compared to prior year. Business services revenue grew 5%. We had declines in software and financing revenues of 2%, support services of 7%, rentals of 9%, supplies of 13% and equipment sales of 14%.

Gross profit was $389 million, with a margin of 44.8%. This is a decline of about 4 points from prior year, which is largely reflective of the shifting mix of our portfolio. Gross profit was also negatively impacted by 1 point due to the tablet replacement charge.

SG&A was $299 million, which was a decline of about $3 million from prior year. SG&A as a percent of revenue was 34.5%, which was approximately 1 point lower than the prior year and largely a result of the lower revenue.

R&D expense was $22 million or 2.5% of revenue. Compared to prior year, R&D expense declined about $3 million and improved slightly as a percent of revenue.

EBIT was $69 million and EBIT margin was 7.9%. Compared to prior year, EBIT declined $46 million and EBIT margin declined by 5 points, driven primarily by the gross profit decline.

Interest expense, including financing interest expense, was $39 million, which was $4 million lower than prior year as a result of the debt we have paid down over the course of last year.

The provision for taxes on adjusted earnings was $8 million. Our tax rate was 26.6% and relatively flat to the prior year as we normally experience a higher tax rate in the first quarter.

Average diluted weighted shares outstanding at the end of the quarter were $188 million, which is about 600,000 shares lower than prior year.

Let me now discuss the performance of each of our business segments this quarter. Starting with Commerce Services. Revenue was $401 million, which was growth of 6% over prior year.

EBIT and EBIT margin was essentially breakeven. EBITDA was $24 million and EBITDA margin was 6%.

In Global Ecommerce, revenue was $266 million, which was growth of 9% over prior year. Within Global Ecommerce, our domestic parcel services delivered strong double-digit revenue growth as volumes continued to ramp up through our network. We continued to grow volumes both through our services in China as well as expanding our domestic client base. Shipping solutions also delivered strong double-digit revenue growth as volumes through our shipping APIs and delivery services accelerated in the quarter. This segment's revenue growth was partially offset by a decline in our Cross-Border business, largely due to weakness in volumes, the strength in U.S. dollar as well as regulations and taxes in some of our larger inbound markets. EBIT was a loss of $15 million and EBIT margin was negative 5%. EBITDA was $2 million and EBITDA margin was 1%. We continued to invest in market growth opportunities, which includes marketing programs and facilities as well as operational excellence initiatives. We have not lost sight of the long-term growth opportunities here, and we will continue to invest in this area to drive long-term value. Higher labor and transportation costs continued to be an area that we are addressing. We continued to leverage resources across our network to partly offset these incremental costs. And we experienced higher-than-normal domestic shipping rates due to a delay in the approval of one of our NSAs with the USPS, which has since been approved. Additionally, margin was also impacted by product and client mix. In the quarter, we saw majority of the revenue growth coming from faster-growing but lower-margin services. We expect that unit costs across the portfolio will improve over time through scale. Within Presort Services, revenue was a $135 million, which was flat to prior year. Compared to prior year, we processed higher volumes of First Class and Standard Mail as well as flats. The growth in volumes processed is a positive sign that we are gaining share. However, a changing client mix towards larger clients drove a lower revenue per piece. As Marc mentioned, we have begun layering in productivity actions and a new pricing strategy. EBIT was $15 million and EBIT margin was 11%. EBITDA was $22 million and EBITDA margin was 16%. Presort margins this quarter were lower than we expected. EBIT continues to be impacted by higher transportation and labor costs, along with the lower revenue per piece. Compared to prior year, margins were also impacted by higher employee wages related to the increase we initiated early in the second quarter of last year as well as higher bad debt expense and consulting fees associated with our productivity and pricing work.

Turning to SMB. Revenue was $394 million, which was a decline of 9% from prior year. Excluding the impact of our market exits, revenue declined 7%. EBIT for the group was $122 million and EBIT margin was 31%. EBITDA was $131 million and EBITDA margin was 33%.

In North America Mailing, revenue was $315 million, a decline of 7% from prior year. Equipment sales declined largely due to lower top of the line and bottom of the line product sales, partly offset by growth in our SendPro C unit placements. Since launching, we have placed nearly 85,000 SendPro C units and are on track in transitioning our client base into the new product. Recurring revenue streams declined in line with the average of the last 4 quarters. As mentioned previously, we recorded a $9 million charge related to a tablet replacement program for our SendPro C in the quarter. When you exclude this item, gross margins improved 1 point over prior year and continued to perform within a tight range as they have over the last several quarters. EBIT was $111 million and EBIT margin was 35%, which is 2.6 points lower from prior year. Excluding the tablet replacement charge, EBIT margin would have been 37.8%, which is in line with the last 4 quarters. EBITDA was $117 million and EBITDA margin was 37%.

In International Mailing, revenue was $79 million, a decline of 14% from prior year. Excluding the impact of our market exits, revenue declined 6%. Equipment sales declined largely driven by weakness in Germany and France, but partly offset by growth in the U.K. and Japan. Recurring revenue streams also contributed to the overall decline. EBIT was $12 million and EBIT margin was 15%, which was a decline of 1 point from prior year, mostly due to the decline in revenue. EBITDA was $14 million and EBITDA margin was 18%.

Turning to Software Solutions. Revenue was $73 million, which was a decline of 2% from prior year, driven by lower license revenue but partly offset by higher data updates, SaaS and Services revenue. Smaller deals grew double digits in the quarter, marking the sixth consecutive quarter of double-digit growth. Additionally, prior year benefited from a $7 million Location Intelligence deal, which created a tough comparison for the quarter. EBIT was $2 million and EBIT margin was 2%, which was a decline of 1 point from prior year, mostly due to a decline in license revenue. EBITDA was $4 million and EBITDA margin was 6%.

Let me now address our 2019 guidance. We are updating the full year based largely on Presort Services performance and to a lesser extent a slower profitability ramp in Global Ecommerce as well as the unexpected charges we incurred in the first quarter. Our updated 2019 guidance is as follows: revenue, excluding the impacts of currency, to grow in the range of 1% to 3% as compared to prior year; adjusted EPS to be in a range of $0.90 to $1.05; and free cash flow to be in a range of $200 million to $250 million.

Let me also address timing through the year. As the portfolio continues to shift to growth, particularly around shipping, the fourth quarter will increasingly be our largest revenue and earnings-generating quarter. Our second quarter revenue and adjusted EPS will be impacted by this portfolio shift. Additionally, we are investing in our third-party financing initiatives as we begin to originate loans and leases, which will impact expense ahead of the streamed revenue that will be recognized over time. We also expect our spend reductions to ramp throughout the year. Therefore, we expect the second quarter's EPS attainment to the full year to be approximately 1 point lower than prior year's second quarter EPS attainment.

As a reminder, we have recast our financials for the new leasing standards, and have posted a file with the 8-quarter history on our Investor Relations website.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ananda Baruah from Loop Capital.

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

A couple if I could. Marc, how are the Presort -- and thanks for the context on the quarters through the years with the dynamics. Specifically to the Presort, how long do you think or what time -- how should we think about those actions layering in over the next couple of few quarters? And based on what you can see, when do you think that business gets back to kind of stable? Or as you -- as the actions that are intended to (inaudible)?

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

Sure. So Stan will keep me honest on this because he's got the schedule in front of him. As you look at the work that we've done with the third-party, and I'd stress that, that's work that began last summer. So this is something that in some way is anticipated. We saw, I would say, de minimis benefit from that in the first quarter. We'll see a little bit in the second quarter and it will be principally in the second half. The benefits come in what I would say 2 buckets. One is pricing, which we are starting to layering out, and that will be some of the benefits we realized in the second quarter. But the productivity benefits which are an important part of getting that business back on track are the second half. In addition, what we're staring at and it can kind of get lost in a sea of numbers in Presort. But in essence, there's a couple of things that have happened. One is -- and it's not -- for those of you who have followed the company for a while, dissimilar to what would happen into the Production Mail business, the customer base is consolidating. And as the customer base consolidates, while volume continues to increase, albeit not quite as much we had hoped, but volume is increasing, the volume is moving to customers who have more pricing power as they just have deeper discounts. So to a degree, we can fine-tune that, but that is what it is. But it also gives you an important opportunity to offset transportation costs, SG&A, where that volume came from where it was more distributed. So a long-winded answer to your question. We spent more time thinking and talking about Presort in the last 4 weeks and

I have in the last 4 years because it's generally been a business that's performed exceedingly well. So short answer, little by the second quarter, mostly in the second half.

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

Okay. Got it. That's actually helpful context. And then just as regards to the transportation and labor costs, I know you're not the only one, obviously, that are experiencing that dynamic. Are you -- do you guys -- do you have the visibility to -- like if that continues to sort of be as pronounced as it was, do you have the visibility -- I guess really my question is, how -- for how long do you think you will need to address that? Is that more like a onetime we can get into the cost structure sort of addressing dynamic? Or is this something where -- for this year into next year as well as things remain pronounced to have to adjust the cost structure to address it?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Ananda, let me take that from a couple of different angles here. First, let's talk about labor. My view is any business that has this much of a labor base, a significant amount is always going to be driving productivity. If you recall last year and early in the second quarter, we actually took part of the savings from tax reform and increased the hourly wages to be more competitive in marketplace. That certainly has cost us on a cost basis on a year-over-year basis, we'll wrap on that, in Q2. But we come at this from different angles. One of the pieces that work with our consultant is to go through things like scheduling, labor productivity, time studies, et cetera, that will help us gain productivity overall. But we've also invested heavily in automation. As we start to roll that out, we'll come at this from both angles, becoming more efficient with the labor we have and then being able to automate more of that activity. So I think from a labor point of view, that productivity mission is never going to end. It might have different flavors as you go through time. I think on a year-to-year basis, we'll see some easing of that as we go through 2Q and into the back half of the year from the actions that we've put in place. On transport, you're more suspect to the market, where you go out in the spot market, and we keep rebalancing what we do internally with what we do through third parties. We've also taken additional steps to gain synergy between our Newgistics acquisition and Presort through the labor -- I'm sorry and transport. Now I still think we have a way to go to capture all of that, but the concept's relatively simple and that is full trucks are much cheaper to run.

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

Thumbnail version of that. I think labor is going to be a chronic problem not for -- just for Pitney Bowes, but for the country as you continue to have low unemployment and these wage pressures. And listen, there's aspects of that, that's good from a societal perspective. To Stan's point, there's a bunch of things that we have in place that will mitigate that. As you think about transportation costs, it's a little bit different dynamic between Presort and Global Ecommerce. Global Ecommerce actually exited the quarter kind of on the transportation cost line that they had planned more or less I mean it was close enough for government. Presort on the other hand wasn't. A part of that is a function of what's going in the marketplace, but candidly part of it was a function of what I have said before. When your volume consolidates, you should be able to get transportation segment. And we didn't get those as quickly as we would have liked.

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

Got it. That's all helpful. And then just one quick wrap-up and then I'll cede the floor here. So just given the handful of actions that are taking place and you already spoke to the guy, but let me ask it this way too. Should we now anticipate that the December quarter will be more weighted towards the profit targets for the year than in typical -- as it sounds like really it's not going to be until Q3, where I think a bunch of these actions kind of get hold?

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

The short answer is, yes. If mean if you think about -- we kind of glossed over in one sentence, but now Commerce Services is the largest segment that we have. If you think about the way that companies participate in Commerce Services, so much of the revenue is in the fourth quarter because of the obvious reasons of the holiday seasons and whatnot, so the profit will follow that. But it's just a change in nature of the company. But...

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Ananda, you saw from '17 to '18 that fourth quarter became a bigger part of the year. And I think you'll see that increase again as you look '18 to '19. Just simply mix of the business and the underlying dynamics like Presort.

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

Just I would say is, we don't -- we spent a lot of time in prepared remarks is, the software business is starting to behave like a proper software business. I would say, in my first several years here, it was the only software business I have ever seen that actually was kind of balanced first half, second half in terms of revenue. Most software businesses are very skewed to the second half and particularly the fourth quarter. So it -- there's a bunch of different dynamics that will push profit into the fourth quarter.

Operator

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

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

Marc, just a big picture thought on the Presort business. As you look at profitability of this business over the next 2 to 3 years, how would you -- what do you think about the margin profile for this business as we go over the next 2 to 3 years with these labor costs that are having a negative impact and, obviously, transportation because the economy is so strong. Just to get your thoughts on that?

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

Yes. I mean so last time we provided long-term guidance for Presort that was in the 15% to 20% range. We'll update long-term guidance here in a couple of weeks at the Analyst Meeting, which I believe we've announced. So I would say 15%-ish. I mean I don't think it's going to be a material departure from where we've been. And it's to the point that I said, I mean most of the issues that we're looking at if not are controllable totally by us, there is just a reasonable offset. And then -- by the way, that was reaffirmed by the third party. So it's -- that's not something that we're starry-eyed about, that's something that we've worked with outsiders to get a affirmation of.

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

And look -- as you look at the e-commerce business, that business is going to do again probably north of $1 billion. Yet, it's right now being challenged profitability-wise. I know you said you are investing in the business. But at what point, do you think this business starts really generating operating profits rather than all the investment that's needed?

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

Yes. We'll say more in Analyst Day. But let me kind of draw a line between a couple of things that helps illustrate the points. So last year in the first quarter, we talked about the churn in Newgistics business. So if you think about the Newgistics acquisition, we consummated the acquisition in the fourth quarter of '17. So you were -- for all practical purposes, in a shutdown period in terms of making changes to the network. As we rolled that business into the first quarter of '18, we had a fair amount of issues servicing clients. And the short story was we just simply didn't have enough capacity to accommodate the volume. Fast-forward 12 months later, the level of churn that we experienced in Newgistics in the first quarter, depending on how you want to look at it was either 50% or you could say 10% of the churn that we had achieved in the previous quarter. Why is that? Because we built capacity ahead. So if you look at the network -- the Newgistics network in particular, I think we've got 5x the level of capacity. So this dynamic, so one way of saying it is, as long as you've got this bow wave of volume that we're continuing, candidly to enjoy, you're going to invest capacity in front of that, or you're not going to keep it. So that's important because the long-term -- the most important long-term factor in profitability in this business is scale. We'll talk about this in some level of depth in a couple of weeks, but -- and we think we need 250 million to 300 million parcels to get to our long-term targets. Now we'll get to profitability before then. But for sure, as you're thinking about this business as long as we're kind of growing as much as we have the last 6 quarters, you've got to invest capacity or you're not going to keep the clients. And by the way, it's no different than what UPS or FedEx have said in their announcements as well. Everyone's is adding to their network to take advantage of what this opportunity is. And we all kind of look at the opportunity from slightly different ways, but we're -- at large, shipping is a heck of an opportunity.

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

To be more -- just one question follow-up on that. You talked about 250 million to 350 million parcels. Where are you today in relationship to that number?

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

We'll talk about that more in a couple of weeks, but we've got a year or two to go to kind of get the level of scale. I'd say as we look at the (inaudible), fourth quarter of next year we kind of feel like we're operating at scale, and then you got to sustain that going forward.

Operator

Your next question comes from the line of Allen Klee from the Maxim Group. (Operator Instructions)

Okay, we will move on. We will go to the line of Glenn Mattson from Ladenburg.

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

The -- on the -- I believe it was on the e-commerce business you talked about strength and adding new logos and reducing churn in subs. Can you kind of give us any sense of what the churn has been historically and what the change was?

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

Yes. So let me -- first, I'll talk to the new logos point because I think it speaks to the demand. We've added 270 new logos in our Global Ecommerce business over the last 12 months. And again, I mean, you guys have followed the company for a bit -- Glenn, for a long time. You think about what this business was 4 years ago. It was one client, and we've added 270 new clients in the last 12 months. In terms of churn, I think the industry trend in this business is kind of, I'd say, high single digits, and we were kind of in that range last year. We are in a fraction of that this year.

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

Great. And...

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

But again, that's -- it's -- we talk about these things as disparate things. We always have been able to do that as we're investing in front of the volume.

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

All right, all right. Okay. And on the software side, it was I think the second quarter where you highlighted kind of small deals kind of helping to carry the day. Maybe you could just kind of expand on that a little bit more, and talk about the outlook for software for the rest of the year?

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

So let me start with the bottom line. I'm bullish about the outlook for software for the rest of the year. As you look at the first quarter, we've referenced back to the large deal that we recognized last year in the first quarter that was $7 million-ish. If you look at the first quarter this year, we had several deals that were $500,000 to $1 million, so good size deals, but nothing of 7-figure or not many 7-figure deals. That's important because our scale, this is always going to be a lumpy business, but what inoculates you against the true lumpiness is that you build this broad bow waves, if you will, of $500,000 to $1 million deals. So we feel good about the business going forward. We've got some larger chunky deals that are in front of us.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

They'll tend to skew, obviously, through the year. But let me give you a little bit more color. So small deals grew double digit this quarter. That's actually the sixth consecutive quarter of double-digit growth. And if you look at the indirect channel, we've talked about that, that also grew nice double digits here. But I think more interesting is, we're seeing the composition of that pipeline shift and roughly 2/3 of those deals in the pipeline now are lift deals versus shift deals.

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

So in layman's language, that means partners are bringing us deals, which again is -- was always the theory of the case. We always thought we had good products, but we had hard time getting to new logos. What we're now starting to see is affirmation of that hypothesis. So when partners start bringing in new deals, that tells you they are confident with what you've got. And that lift has just flat out incremental to what that direct sales force produces. So it's taken way too long to get to that point, but we are now starting to see the benefits of what we've done for the last several years.

Operator

Next, we'll go back to the line of Allen Klee from the Maxim Group.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

For the NSA that you mentioned that got approved but was delayed. Can you tell us if the terms that it got approved on will have a material -- were relatively similar to what they were in the past or is there something that's changed in it that could have a meaningful impact on the profitability you expect from that business?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

It's -- Allen, it's relatively in line with our previous arrangement.

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

Allen, just broadly, our relationship with the postal service has never been better. And so that was 1 NSA out of 7 and candidly probably a dozen different initiatives. We're very pleased with that relationship and it's -- and it continues to be an important...

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Yes. Remember, this is wide-ranging relationship, right? So it's everything from meters to workshare and Presort to the initiatives through Newgistics that inject parcels into their network. So this is far broader than any one NSA.

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

This particular NSA was -- kind of (inaudible) the same as what we had experienced.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

Okay. And when you said part of the reason that you factored into your guidance, new guidance was a slower ramp in Global Ecommerce. By that did you mean the slowness that we saw in this current quarter? Or do you mean that in the next couple of quarters -- in the next 2 quarters until we get to 4Q would also be at a slower ramp?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

So let me split that because I think it's important to dissect it. So we are still investing ahead of this curve. From a revenue perspective, we believe revenue will perform better than it did in first quarter. So in first quarter Global Ecommerce grew 9%. The exit rate was 16%. So coming out of March, the month of March was 16%. So we expect that Global Ecommerce will go back to a double-digit growth. Now from our profitability side is really the comment on the ramp. We continue to invest in new facilities. We've opened 2 so far this year. We continue to invest in automation capability and new offerings and to go through investments in technology. So those have a front-end load to them, but we think they're important both comment back to churn and serving clients better, but also to expand that marketplace for us.

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

I'll make an additional point on Global Ecommerce. I know there has been a concern by some of our investors, and I understand that we've been chasing revenue at any cost in that marketplace. To the Global Ecommerce team's credit, they're actually starting to get out of some of the businesses that they were in, where they're not -- they don't see a path to acceptable margins, some of the relationships, they don't see acceptable margins. So I understand people like this business to be profitable sooner versus later, and with the growth that we have seen there's always a concern that you're chasing revenue than growth. I would just highlight to our investors and to our analysts that they're getting out of particular businesses, where they don't see the opportunity for long-term profitability.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

Your CapEx in the quarter was around $29 million. Does -- is that sort of a reasonable quarterly run rate going forward?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

You're going to see that shift around. So we typically look -- we'll give you an update on CapEx in total at Analyst Day. If you look at last year, I think you'll see that will increase slightly year-to-year not dramatically.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

Okay. And then lastly -- this is just something I missed if you could clarify. In the guidance, you said that something would be 1 point lower year-over-year for the next -- for the second quarter. Could you just clarify what that was?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Sorry, when we were talking about the skew of the year, this goes a little bit back to the earlier question. And when you go look at the attainment, we are going to continue to shift to be more back-end loaded. So when you look at 2Q as a percent of the year, we think that attainment will be about 1 point lower than it was prior year.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

So you mean if you take the percent that it is over the year's revenue, whatever percent that was in 2018, it will be 1 point less?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Yes, we were -- it was kind of specifically to earnings.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

Oh, to earnings?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Yes.

Operator

(Operator Instructions) Next we'll go back to the line of Ananda Baruah from Loop Capital.

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

Just was wondering with Stamps.com's announcement to discontinue the preexisting nature of its relationship with the USPS. If you've seen any structural changes in the market environment? I know you have a business that sort of gets the things the same way. And then secondarily , if you believe if there's any opportunity there for you in incremental way given the change of your relationship with Stamps and the USPS?

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

So we've honestly followed that fairly closely, as you might imagine. So far, we have not seen, to your point, structural changes in the market. So let me be clear about that. Stamps did talk about 3% price increase for aspects of their customers. We've not seen evidence of that yet, so hard to know. If and when that does occur then that potentially would create an opportunity for us to have conversations with clients where we haven't had the opportunity before. suffice it to say with the changing dynamics of USPS this will create opportunities. And as well as, I mean, to be candid, I mean, there's also threats in that as well. But we like how we're situated.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Yes, and look, our competitive offerings are pretty wide and our approach to market through parcel through all the things we offer through Global Ecommerce and returns, et cetera. So we like our position in the competitive market. And I think if you look at the growth we have had in Global Ecommerce, that manifests itself into good client acceptance.

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

One of the strategic beliefs that Lila has had about that business and I think that's been borne out to be true is that there's an advantage to physically touching the parcels as opposed to just printing the labels. Obviously, physically touching the parcels come with a different margin and a different set of investment structures. But that said, as you contemplate what's meaningful to USPS, I won't say that printing labels is unimportant, we certainly print a lot of labels as well and we're happy to do that, but if you can do things actually with the parcel that helps ingest into the postal service network or other networks, the logistics provider networks, that's even more advantageous. So I think you're seeing the wisdom of some of the strategic beliefs bearing out.

Operator

And at this time there are no further questions. I'd now like to turn the call back to Mr. Lautenbach for any closing remarks.

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

Great. Thank you. Let me just reaffirm what I said at the onset. We're not pleased with the first quarter performance. It's not something that we anticipated, not something we're pleased about, but it is something we can recover from. If you contemplate the dynamics in the first quarter and you kind of isolate the things that went wrong, the battery issue is a onetime issue that we get through, the NSA deferral we're already through it. And the dynamics inside our Presort, candidly, are disappointing, but it's also a business that's got a proven track record of execution. As you contemplate those 3 dynamics together, I don't presume any of them have anything to do with the long-term vibrancy or the long-term opportunity of this company. On the other side of it, if you look at SMB at the margin structure, if you look at the software in terms of the channel dynamics and candidly, the pipeline that's in front of them and Global Ecommerce from exit rate in terms of revenue and some of the productivity initiatives, the long-term theory from my respective here is intact. So first quarter was disappointing. It was a bump in the road. That being said, it doesn't change my view when I heard the long-term prospects of the company. So we'll talk more in Analyst Day, and we'll render some of these dynamics more explicit, particularly around Global Ecommerce and profitability. Because I know that's something that appropriately is ways on people's minds, but we like our long-term positioning, and nothing has changed about that.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

So just a matter, Analyst Day is May 29, and we look forward to seeing you there.

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

Thanks.

Operator

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