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## Q4 2023 Pitney Bowes Inc Earnings Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the Pitney Bowes Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions) Today's call is also being recorded. (Operator Instructions) I would now like to introduce participants on today's conference call. Mr. Jason Dies, Interim Chief Executive Officer; Ms. Ana Maria Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Philip Landler, Vice President, Investor Relations and Global Strategy. Mr. Landler will now begin the call with a safe harbor overview.

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**Philip Landler** ***Pitney Bowes Inc. - VP of IR & Global Strategy***

Good morning. I'm Philip Landler. Thank you for joining us. I manage the Pitney Bowes Investor Relations program, and part of my duties include covering the safe harbor information for these calls. So let me briefly cover that.

Included in today's presentation are forward-looking statements about our future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections.

More information about these risks and uncertainties can be found in our earnings press release, our 2022 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 we do not undertake any obligation to update forward-looking statements as a result of new information or developments. Also for non-GAAP measures that are used in the press release or discussed in our presentation materials, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release. Finally, we have provided a slide presentation and spreadsheet with historical segment information on our website.

And now I'd like to turn the call over to Interim CEO, Jason Dies.

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**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Good morning, and thank you for joining the call and your ongoing investment and interest in Pitney Bowes. Over the past 120 days, I've spent a lot of time getting valuable feedback and viewpoints from our shareholders and core stakeholders. This input has helped reinforce my assessment of our key opportunities and the challenges we're working to address.

Most importantly, these conversations have increased my optimism about the future here at Pitney Bowes. Later in the call, I'll discuss my work with the senior management team and the Board to develop a set of strategic and operational priorities for 2024.

Let me start today by giving a high-level overview of Q4 performance at the enterprise level as well as across each of our segments. We made good progress this quarter, growing adjusted EBIT $14 million year-over-year, but still have work to do.

At the enterprise level, we are on track with our cost reduction and restructuring efforts after increasing our original targets late last year. We are seeing the benefit from these efforts show up in segment and overall profitability, and Ana will provide more detail.

SendTech and Presort executed well in the quarter. SendTech grew EBIT as a result of gross margin expansion, simplification and cost reduction actions. These gains are enabling us to shift resources towards investments in our shipping capabilities, where we see meaningful long-term profitable growth potential. Presort grew revenue and recorded its highest ever EBIT in the quarter, which is a testament to the great work of the team. We will continue to capitalize on our excellent operational and client support capabilities to create value in this segment.

Global Ecommerce delivered improved fourth quarter profitability year-over-year and sequentially, demonstrating the value of our network in peak and on a go-forward basis. Domestic Parcel volumes grew 13% to 61 million parcels. We are continuing to take actions and review options to realize the value of this segment. I'd like to thank all of the PB teams for their dedication to serving our clients in the holiday season and throughout the year.

Next, I want to spend a minute outlining the strategic and operational priorities that will help us build on current momentum and continue to transform in 2024 and beyond. First, we will continue to streamline the organization and reduce cost. The cost reduction program we previously announced started to yield savings in 2023, and we expect to increasingly realize these benefits throughout 2024. Although we are on target on the restructuring side, we will continue to look for additional ways to increase efficiency.

Second, we're driving more accountability into our businesses. In addition to changes in how we operate and measure performance, we have also made some initial and important changes to our overall organizational structure. We have integrated the majority of our marketing functions under segment leadership to improve focus. We are also combining SendTech globally under Shemin Nurmohamed, who will have full responsibility for strategy and execution in our 10 geographies worldwide.

Third, we are realigning assets and resources to better leverage our technology and innovation capabilities to create client value with specific focus on accelerating SendTech's shipping growth. To that end, effective January 1 of this year, we moved GEC's digital shipping business into SendTech. That includes our global carrier library, and API technology to create and manage multi-carrier shipping options. This will drive product development and engineering efficiencies as we upgrade existing solutions and develop new ones. Also, since SendTech recently launched a go-to-market model that prioritizes growth in shipping, having our digital offers combined in one channel will drive additional synergies and an improved client experience.

Fourth, we're focused on more disciplined capital allocation and strengthening our balance sheet. As we continue to execute on corporate cost reductions and realized business unit efficiencies, we plan to allocate capital in a manner that balances near-term and long-term interest of our investors.

In closing, 1 quarter in, I am optimistic about what lies ahead for Pitney Bowes. As we look ahead in 2024, we will continue to operate with intensity and prioritize actions that support increased operational discipline and accelerate our shift into targeted shipping growth path. We understand the challenges and also the opportunities we have. 2023 was a year of significant change for Pitney Bowes and 2024 will bring additional transformation, which I expect to be very positive.

And now I'd like to turn it over to Ana to discuss our Q4 results in more detail.

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

Thank you, Jason, and good morning, everyone. I will focus my comments on the financial performance in the fourth quarter. Full year 2023 results and additional commentary can be found in our press release. Unless otherwise noted, I will speak to revenue comparison on a constant currency basis and other items such as EBIT, EBITDA, EPS and free cash flow on an adjusted basis.

For the quarter, total revenue was $872 million, a decline of 4% versus prior year. EBITDA was $103 million, an improvement of $15 million year-over-year. EBIT was $63 million and $14 million higher than prior year. EBIT improvement was mostly offset by higher interest expense. Adjusted EPS was $0.07 versus $0.06 in prior year. GAAP EPS was $1.27 loss in the quarter. GAAP EPS includes a noncash goodwill impairment charge of $1.24 related to the Global Ecommerce segment. GAAP EPS also includes an $0.08 restructuring charge and a $0.02 noncash charge related to a foreign currency loss on intercompany loans.

Let's dive into our 3 business segments. SendTech, which had a solid quarter, especially on the bottom line. SendTech reported EBIT growth of 7% on revenue of $327 million in the quarter, down 5% compared to prior year. As previously discussed, we continue to experience secular declines in our meter base and an increasing shift towards lease extensions given where we are in our product life cycle. Both dynamics are putting pressure on near-term revenues.

This quarter, shipping-related revenues declined 7% and now comprise 13% of SendTech's total revenue. Prior year included a couple of large transactions that had a high proportion of in-period shipping related equipment and professional services revenue. Looking beyond these transactions, we made meaningful progress in sustainable shipping growth. The fourth quarter was our single biggest quarter in terms of implementing new enterprise subscriptions.

Our enterprise offerings provide leading shipping capabilities that are often integrated into multiple client systems to solve complex workflows. The high level of new implementation bodes well for the future of the business as these transactions come with a high portion of recurring revenue.

Though early days, SaaS subscription revenue from our shipping products grew 42% in the quarter. We remain confident about the growth potential of our shipping solutions. As Jason mentioned, we are making changes in 2 key areas. First, we are shifting more resources to our shipping go-to-market. And second, effective January 1, we moved the digital shipping solutions in Global Ecommerce to SendTech, streamlining our leadership, product development investment and leveraging our new go-to-market.

Segment financials will be recasted for this change when we report earnings next quarter.

We continue to refresh our product base with new USPS compliant technology. At year-end, we were 72% through the migration and even further along for the low- and mid-volume products. At this stage of the migration, we continue to see more fixed-term lease extensions versus new lease transactions.

As a reminder, the financial impact of this shift will be near-term pressure on equipment sales, generally offset by higher margin financing revenue spread over the term of the lease extension. From a cash perspective, this is a net positive as we will have lower net investment in finance receivables, while we continue to receive monthly lease payments from clients. We expect this dynamic to play out more meaningfully on financial performance in 2024. In addition, as we move into the later stages of our product refresh, we expect an uptick in cancellation rates, which is in line with our past experience during product migrations.

The 3 dynamics I just mentioned, shipping growth, more lease extensions and higher cancellations have been incorporated into our long-term planning.

Moving to the bottom line. Segment EBIT was $113 million, a 7% improvement. EBIT margin improved 370 basis points, driven by both gross margin and expense improvement. SendTech gross margin expanded by 240 basis points as a result of improvement in equipment gross margin and more attractive mix of financing and business services, which are both higher-margin revenue streams.

Higher equipment gross margins were primarily driven by 2 items. First, we implemented several supply chain improvements earlier this year that have resulted in lower production and transportation costs. Second, in the quarter, we sold and installed a higher mix of more complex top-of-the-line equipment, which often comes with a higher margin profile.

Moving to operating expense. Our efforts to streamline and simplify the business are also benefiting SendTech's bottom line. SG&A as a percent of revenue improved 130 basis points, primarily as a result of our restructuring efforts. We also continue to modernize our SMB client processes, which is driving more client interactions to lower-cost channels while improving the client experience. Of note, in 2023, we saw the largest year-over-year improvement in Net Promoter Score in the last decade.

I'll spend a moment on the performance of financial services inside of SendTech. Financial Services remains an important component of the business, providing valuable client solutions and steady returns. Finance receivables grew $25 million or 2% on a year-over-year basis. Within our receivable portfolio, net loan receivables grew $30 million, and net lease receivables declined $5 million, in line with the product life cycle dynamics I previously explained.

We also continue to make progress on our previously announced program where our bank is participating in the financing of select captive lease receivables and initiatives that will be good for both the bank and the enterprise overall. The health and quality of our portfolio continues to demonstrate the durability of our offerings. Delinquencies and write-offs continue to be low and roughly flat quarter-over-quarter.

Next, let's turn to Presort, which had another excellent quarter. Presort revenue grew 3% to $163 million and sorted 3.7 billion pieces. Revenue growth was driven by higher revenue per piece from pricing, more attractive mail class mix and better 5-digit store qualification.

Adjusted segment EBIT was $34 million in the quarter, up 17% versus prior year, a result of higher revenue per piece and continued focus on operational excellence. Our prior investments in automation, along with more efficient process management, continue to drive labor productivity and offset annual increase in our new wages.

More specifically, we drove a 9% year-over-year improvement in pieces fed per labor hour, which is the measure we use to track labor productivity. Looking forward, we continue to pilot new automation and technology that we can scale across our network to further improve labor productivity. In addition, over the past year, our team has optimized our transportation routes, which helped lower transportation costs year-over-year.

Let's shift to Global Ecommerce. Where our performance in peak reflects progress in execution and cost management. Segment revenue was $381 million, down 7% versus prior year. The change in Cross-Border client relationships that occurred in the first half of the year continues to be a significant drag on year-over-year compares.

Specifically, Cross-Border revenue and gross profit declined $49 million and $11 million, respectively. Cross-Border performance has since stabilized, and we expect compares to normalize in the second quarter of 2024. Domestic Parcel volume grew 13% to 61 million in a challenging market. Volumes fluctuated during the quarter with parcel volumes being softer than expected pre-Black Friday followed by a surge in December.

Despite this, the team delivered sustained, predictable cost and competitive service levels, while overall profitability still needs improvement, our ability to effectively manage these fluctuations reflects progress compared to the last 3 peak where we either missed on service or cost.

Domestic Parcel gross profit grew $3 million. Higher volumes in the quarter resulted in better fixed cost leverage on both a year-over-year and sequential basis. As we move out of peak, we expect this benefit to be less in the first quarter as volumes are seasonally low.

Unit transportation costs also declined 17%. Better peak planning, route optimization, higher utilization and lower fuel prices helped drive this improvement. Better unit costs continued to be partially offset by lower revenue per piece.

Altogether, revenue per piece declined 6%. The market remains challenging from a pricing perspective as a result of excess capacity, evidence by much lower peak surcharges across the industry. Beyond the market, client and parcel mix remains a headwind to revenue per piece.

Adjusted segment EBIT improved $3 million to a loss of $20 million. Lower operating expenses and improvement in Domestic Parcel economics drove higher EBIT. But as mentioned, we're partially offset by the continued drag from the change in Cross-Border client relationships. Important to note that operating expenses declined $8 million year-over-year, primarily due to cost reduction initiatives taken over the past 3 quarters.

Moving on to enterprise-wide restructuring. We made meaningful progress on our cost reduction plans in the quarter and are on track to deliver the previously communicated $75 million to $85 million annual run rate savings by end of 2024. In 2023, we realized $24 million in savings. As a reminder, the plan impacts cost and expenses across the business, including all 3 segments and unallocated corporate.

Turning to cash flow. GAAP cash from operating activities in the quarter was $94 million and free cash flow was $78 million. Both figures were lower on a year-over-year basis due primarily to a large working capital benefit last year. During the quarter, we paid $9 million in dividends and $14 million to reduce debt. As Jason mentioned, we remain focused on a disciplined and balanced capital allocation strategy.

I'll conclude my remarks with a perspective on 2024. We expect revenue growth to range from flat to a low single-digit decline and EBIT margins to remain relatively flat on a year-over-year basis. We expect incremental benefit in 2024 from our company-wide cost reduction program as savings from the actions taken in 2023 annualized and we further execute on the plan. We expect restoration of variable compensation and wage inflation to partially offset gains.

Within SendTech, we expect revenue and EBIT to decline due to the dynamics I previously explained around our meter base, the timing of our product life cycle and shipping growth. Following a strong year in 2023, we expect Presort performance to be relatively flat to slightly up as the team continues its strong execution. Within Global Ecommerce, we expect revenue and EBIT to improve as we continue to take actions to optimize performance and to realize the value of this segment.

Finally, in 2024, we expect similar levels of capital expenditures as in 2023, which were at a lower level than 2022 and interest expense to remain around the elevated rate incurred in fourth quarter 2023.

To close, the fourth quarter was a solid quarter and a testament to our team's dedication and hard work. Global Ecommerce grew Domestic Parcel volume and improved its bottom line in soft market. SendTech and Presort both delivered meaningful margin expansion through focus on operational excellence and simplification.

With that, let me pass the call back to Jason.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Thanks, Ana. Before moving to Q&A, I'd like to formally welcome Bill Simon and Jill Sutton to our Board of Directors. You may have seen an announcement last night regarding changes to our Board. Bill and Jill brings significant experience in areas such as corporate governance, transformations and capital allocation, and I look forward to their insights and counsel as we continue to move Pitney Bowes forward.

As part of that announcement, Mary Guilfoile has also announced that she will not stand for reelection in May, but will stay on Board Chair until then. I would like to take this opportunity to personally thank Mary for her many contributions to the Board of Directors over the past 6 years, and her continued leadership as Board Chair. She has been a steady hand during an important period of change for Pitney Bowes and overseeing governance enhancements and strategic actions that we expect will put the company on stronger footing for years to come. I look forward to continuing to work with her over the next 4 months to build on the progress we've made.

And with that, let's open the line for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We'll go to Kartik Mehta with Northcoast Research.

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

I wanted to get a little bit more insight into the Global Ecommerce business. You're making good progress there. And I'm wondering, as you move into 2024, is it a function now of trying to get revenue per piece to increase? Or is it because of the price competition more about making sure you control costs becoming more efficient and driving more volume?

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Kartik, thank you for the question. I mean, look, as always, with GEC, I'd say it's multiple things. First off, we need to continue to drive the cost management that we've been pushing for a while now. I think you really started to see the cost management kick in over the last few months. I'll call out in the fourth quarter, in particular, we saw an $8 million improvement in OpEx year-over-year. So that is going to continue, and the team is focused on that.

Second, as you've heard from us repeatedly, we need to continue to focus on driving volumes into the network, especially volumes that add margin in an important way to the network. We did a good job of that again in the fourth quarter. We've done a good job of that over the past couple of years. Last year, we drove a 24% increase in Domestic Parcel volume over the course of the year, 13% in the fourth quarter in what was a down peak for most in the industry. So that has to be a part of the equation again.

And then to your point, we're always focused on rate per piece and the price and margin that we're getting in the market. And I would say, in particular, we've probably shifted more to a focus on the margins that we're yielding in the market over the past few months, and that will continue to be a focus for us going forward.

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

Ana, just for 2024, what are your free cash flow expectations maybe in comparison to what you did in 2023?

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

Yes. So we believe that our free cash flow, as you saw, we delivered the $20-some million, and we believe we'll be somewhat north of that for next year. Nothing significant, but somewhat north.

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

And just one last question, Jason. Just on equipment sales. Obviously, you talked about a little bit of a transition happening and that will have an impact in 2024. And I'm wondering, and I know it's hard, but kind of as you look at the business over the next couple of years, what's your expectations for that would be if this is '24, '24 is a little bit of an anomaly if the trends continue.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. You're talking specifically about the SendTech business, I think, with the equipment.

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

Yes, yes. Yes, yes, I apologize, yes.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. So look, I mean, as you know, and as we've talked about before, we are in the tail end of an IMI migration through most of our portfolio. So if you think about the middle of the range and the low end of the range, that has to get done this year. We have to move those clients to the new platform. We have more time on the top end and on the higher end of the products, which we announced at the beginning of last year. So the truth is we're going to continue to focus on that IMI migration. We're going to continue to use the value of the lease extensions that we're now at the point where we can start to really drive very effectively.

We've talked about before, those lease extensions have a positive impact overall in locking in revenue for us for the long term. So 2024, to your point, will be a bit of a transition period. As you see us move from our existing equipment portfolio, finish off moving to the new equipment portfolio, start to see more of those lease extensions as opposed to new equipment placements, and it will make for a little bit different 2024, but one that ultimately is going to strengthen us as we go forward and lock in those recurring revenues.

**Operator**

And next, we'll go to Anthony Lebiedzinski with Sidoti.

**Stephan Guillaume** ***Sidoti & Company, LLC - Research Associate***

All right. This is Stephan Guillaume on for Anthony Lebiedzinski. I guess my first question is, can you talk about the expected impact of the higher variable compensation and wage inflation in 2024?

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

Yes. So I'll take that. Thank you for the question. We are very committed to our restructuring activities. And we anticipate those savings that I mentioned between $75 million and $85 million as we exit 2024. The significant portion of that will be consumed with variable compensation as we anticipate paying our employees at a full rate vis-a-vis the performance we've had this year, which has not enabled us to do so.

And in terms of increases, we pay market, and we're seeing, in general, as everybody in the market is seeing. And there are different aspects of the market in hourly labor versus salaried and so on. But on average, we're somewhere around that 3% wage increase that we're seeing across the board.

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**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. Well I just say this specifically, I mean, look, it is incumbent on us to continue to drive productivity to continue to drive cost out. You know that labor is something that you're going to have to adjust to and make sure you're getting the right talent to run the business, but it's part of a larger equation that we're going to continue to balance going forward.

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**Stephan Guillaume** ***Sidoti & Company, LLC - Research Associate***

And my next question is, in terms of the cost-saving plans that you announced last year, to use like baseball terms, what innings are you in as far as capturing the benefit of this structuring?

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

Yes. Great question. So we announced -- just the background, we announced the program back in first quarter at the end of our first quarter earnings call. So we've had 3 quarters of execution. And as you recall, last quarter, we upped that number. So based on where we are with our commitment, we feel we're very confident of delivering and obtaining that. And I would say we're pretty far along the glide path. As Jason mentioned, we're never done. We need to remain competitive in the market. We're not leaving any stone unturned, and we will continue to look for further activities to optimize our cost.

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**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. I'll go back to your baseball analogy, we're in the late innings. So we saw a significant impact of that in Q4 start to materialize for us. I will tell you all the actions and activities that we need to execute on to yield that restructuring savings have already been plumbed in the system and our late stages of being executed. And we have acted to realize the full benefit of that throughout 2024.

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**Stephan Guillaume** ***Sidoti & Company, LLC - Research Associate***

And the last one for me is that, can you provide an update on the CEO search process?

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**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. Look, so I will say what I believe I said on the last call, right? So the Board has formed a 4-person committee that is using a nationally ranked search firm to go off and seek appropriate candidates. We said early on that, that was going to take some time, and the Board was going to be clear and fulsome in their process that they went through. We announced, I think, in November earnings call, that, that process at the moment was expected to take 4 to 6 months, and we're right in that window.

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**Operator**

And next, we can go to Matt Swope with Baird.

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

Jason and Ana. So Ana, to the margin guidance you gave to be effectively flat for the whole company year-over-year that the sort of wage inflation you've mentioned and the increase in the variable comp will offset the cost savings essentially dollar for dollar?

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

Yes. So let me add to that thinking for a minute here. So we mentioned revenue flat to potentially down in the low single digits. So to the extent that we have any revenue pressure, remember that, that drives a leverage component that we need to also address. So I would say it's the 3 components that I just mentioned.

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

Specifically looking at Global Ecommerce, you saw a major decline in EBITDA there in 2023. We had started 2023 hoping that GEC EBITDA might be positive. Is there any chance that -- again, especially what you're saying about margins, it feels like maybe no. But is there any chance that Global Ecommerce could be EBITDA positive in 2024?

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

Yes. So let me start that, and Jason feel free to add. Listen, it's absolutely our intent on our goal, and we are continuing to get closer and closer to that milestone. It's very hard to call when it will happen. As you know, there's a lot of market variables and the pricing pressure and the market dynamics that we're in, it's just really hard to call.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes, Matt, let me just jump in. I mean, look, I'm going to say a couple of additional points here. We're not going to comment specifically on where we think GEC is wind up as we go through 2024. I've said in the past, we're not happy with the rate of performance that we've got now from a financial point of view. I think we've made tremendous progress from an operational and executional point of view, but we're still looking at ways to make sure that we can maximize the value of the business, and I outlined a few of those earlier.

The one thing in addition I would say is, look, we are smart enough to know that we're not necessarily always going to have all the answers. We have brought in a third party to help us look at and work with the management team on are we looking at all the levers we should be looking at. Are there ways to accelerate the actions that we've got in place?. And I'd say just as a broader statement, bringing in a third party reflects certainly my personal philosophy that we should be open to ideas from the outside. I think you've seen that from me in talking to investors and analysts over the past 4 months.

And GEC is not the only place, frankly, we're going to bring in an outside pair of eyes. As you look at opportunities for us to think differently potentially about our debt stack, about how we optimize the bank, we're always going to be out looking for good ideas and GEC is certainly one place we're doing that.

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

And so this change of moving the GEC shipping business into SendTech, is that part of that thinking? How will that -- is there anything you can say about the profitability of GEC shipping that piece on its own? Is that EBITDA positive? Or could you give us any more color on why you're doing that and what that will mean financially?

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. So let me go first from a strategic point of view. And I think I said it in the opening, but it's important, and I want to reiterate it. As you think about going forward for Pitney Bowes, getting leverage from the assets and the offerings that we have across the portfolio is one of the opportunities that we still have in front of us.

So moving the digital solutions business from GEC to SendTech was one of those things that just made obvious sense. If you think about the technology, the team and the capabilities that powers that business, they do it for both GEC and SendTech. It is a business that is focused on the digital side of shipping transactions of actually producing the labels. So it is more of a SaaS-based business.

And so bringing those together in the technology part of our organization, which is SendTech, made sense for a bunch of reasons. One, it allows us to really bring the development and go-to-market teams together in a very focused way. It allows us to leverage the go-to-market of SendTech as they shift more and more to shipping. And the synergies that we think we're going to get there are going to pay off, I think, over the long term, as you look at the range of offerings that we will continue to create in that space.

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

Yes. And maybe let me add a few additional sizing of the opportunity here. So to put it in perspective, the shift on revenue, and we will provide a lot more color next quarter, but it's around 3% of Global Ecommerce total revenue. So it gives you an idea of that. In terms of the gross margin that, that brings, as Jason mentioned, this is very SaaS-like. And that has a very healthy gross margin. Now in terms of the expense base to support that gross margin, we look to have leverage as we are more focused around our engineering and our product development. So hopefully, that gives you a perspective on dimensionalizing the size.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

I'm actually very excited about the move, Matt, for no other reason than it refocuses the team on making sure that we are looking at our offerings. We are looking at the technologies that we have in our portfolio, are we monetizing them correctly? Do we have additional opportunities? And it just made all the sense in the world to bring these digital assets together under the SendTech umbrella where I think they can be best leveraged.

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

Ana, sorry to be myopic on the finance part of it. Would that digital solutions business that moves over? Was the piece that will move EBITDA positive in 2023?

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

So just to understand your question is as it relates to Global Ecommerce. The shift, as I mentioned, it's 3% of the revenue. So yes, it carried, as I mentioned, healthy gross margin, but also as we optimize the expense, we believe we can do that better jointly. So in terms of the relative size on the impact of the Global Ecommerce business, I wouldn't say it's anything significant.

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

Okay. Well, I guess I'll just ask is when you guys give us the reclassified financials if you could sort of highlight what the past numbers would have looked like under the new segment pieces. That would be very helpful.

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

That is absolutely what we will do as we release earnings in the first quarter. We'll do a full recast of that between the segments.

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

And I'm sorry, just one last one for me, if I could. In the press release about the new -- the Board changes last night, you mentioned the cooperation agreement with Hestia. Could you elaborate on what that cooperation agreement entails, Jason?

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. Let me -- actually, I appreciate the question. Let me step back and kind of put that announcement last night into some color and some context. And the first thing I'd say on that is Pitney Bowes is actually in a great position with that announcement. As you would expect, the Board and I talk regularly about Board composition and specifically, how do we enhance the skills and experiences on the board so that they can best partner with management and lead the company during this particular time of change. The process that we went through was pretty clear. The Board engaged in a nationally recognized search firm as part of our active and ongoing refreshment. That search firm brought candidates forward. The Board had given them specific skill sets and criteria that they were looking for, things that you might expect around capital allocation, corporate governance, transformation. And at the end of the day, it was a successful process. And we now have 2 new Board members who bring those skills along with a wealth of experience to our boardroom.

The second half is we also have clear and committed support of one of our largest shareholders as we make the changes that we need to make continuing to move forward. So it's a win-win for us right now. And the announcement that you saw last night is a strong signal of confidence in the progress we've made in the past year, building alignment with shareholders. And more importantly, it's a strong signal and the confidence and the path forward that I and the management team are pursuing here.

I've talked to a lot of investors over the past 4 months and the changes that I'm making are reflective of those conversations. And I certainly hope that all of our stakeholders can get excited about the opportunities in front of us, about the transformation that we're undertaking, and most importantly, about the progress that we're starting to see as evidenced by the results that we're talking about right here. So at the end, all I will say on this is that the Board and I are fully committed to the same thing, making the changes we need to make to drive shareholder value, and we have what we need to move forward.

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

That's helpful, Jason. Just one last one, sorry, as I wrap up. You mentioned more disciplined capital allocation. Would you guys consider cutting the dividend?

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

So let me take a step back in terms of capital allocation. And I'll bring it into kind of 4 buckets. As you know, first and foremost, you mean the generation of capital. And as we've talked about, our restructuring program and different things to increase our profitability, increase our cash flow generation. Second priority is investing in our business, and we've talked about CapEx, and we have focused to more optimize the CapEx instead of we build and construction. So that is also providing some additional sources of capital vis-a-vis prior periods.

Debt reduction, paydowns, we have upcoming maturities all the way out to '26 at the moment, but we're focused on and our intent is not to let that go current. And lastly, on return to shareholders. That is really a conversation we continue to have with the Board. At the end, it is a Board decision. But I would say those -- the order in which I just mentioned those 4, that's the order and how we think about it.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

And Matt, I'll just point out, I mean we did reaffirm the dividend this morning. Clearly, that's something we put a lot of thought and effort into with the Board. And what I will say is you heard me talk about my strategic priorities for this year and capital allocation was one of them. And I put that in there both as a signal externally and also as a signal, frankly, internally to our teams that we're going to think differently about how we allocate capital, and we need to get -- we need to make sure that we continue to look for ways to maximize return to all of our shareholders, both in the short term and in the long term.

**Operator**

(Operator Instructions) We can next go to Peter Sakon with CreditSights.

**Peter Sakon** ***CreditSights, Inc. - Senior Analyst***

For GEC, in the press release, and as you mentioned, talked about reviewing options to realize the value of this segment. Can you talk about the timing? And I'm sure it's hard to put a specific number of months, but is this something that we'll need to wait for the new Board members to get up to speed on? Is this something that the company needs to wait for the new CEO to be announced and then do an evaluation?

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

So let's be 100% clear. We're not waiting on anything. We've been taking actions over the past year, and we have redoubled those actions over the past 4 to 6 months to try to make a meaningful impact on the GEC business.

What I will tell you again is, look, we are looking for all of our ways that we have, all of the tools that we have at our disposal to realize value of this business. And short term, it's kind of along what I said at the beginning, right? We continue to focus on operational efficiencies. We're going to continue to make sure that we're driving volumes into our network. By the way, I would point out the fact that we've been successful in driving volumes into the network is a sign of the value that we provide to clients when we work with them. Volume comes from clients and the fact that we've been able to continue to deliver growth there I think, is a strong statement of the value we provide in the market.

And then finally, we do have to get better on making sure that we are extracting the right value from clients for the services and offerings that we provide. So I don't want anyone to have a thought that there is any sense of waiting or hesitation or that there is anything that's needed to start to make progress on GEC. That said, it's a lot of work. There's a lot of things that we're managing and juggling as we try to move forward. But I want to be clear, the Board has been nothing but supportive in me and in the GEC leadership team as we look at our alternatives and continue to move the ball forward.

**Peter Sakon** ***CreditSights, Inc. - Senior Analyst***

On SendTech, and maybe I missed it, you said that with the increased churn, if you will, revenue and EBIT to decline. Did you say how much decline you're expecting in 2024?

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

Yes. So let me take that. So we talked about 3 dynamics inside of SendTech happening. First, as we all know, and it's widely stated, we have our meter population declining as part of the normal mailing decline. The second dynamic we talked about extensively is the shift. We issued our new product about 5 years ago, and we've issued more, but those now are coming for renewals and we anticipate extending those leases for new term leases, but not having a new product to be put out. What that does is it shifts the timing of our revenue.

And then the third dynamic is where we're putting a lot of emphasis around our growing shipping. When you put all of that combined, we do anticipate revenue and EBIT reduction, what we're working really hard is on the expense side across the board, cost and OpEx to keep our margins. This is a transition year, the way I think about it. And I anticipate that trajectory to be an important part of our 2024 as we grow from shipping out of that timing.

**Peter Sakon** ***CreditSights, Inc. - Senior Analyst***

I would say, if I can rephrase my question. For Presort, you said that EBIT in 2024 is going to be flat, to slightly up. At SendTech, you said a revenue EBIT will decline. And I hear you on the reasons why. My question was, what percentage of the decrease in EBIT do you expect or what's the magnitude of the decline for this very important segment?

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

Yes. Listen, we will not comment specific to each segment. But what I will tell you is the overarching statement that I made around our overall revenue being flat to down in the low single digits as well as EBIT margin maintaining gives you a perspective of the relative size that you have in SendTech inside of that envelope.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. And what I'd say, Peter, I'd just remind you, SendTech of its very nature is a lumpy business, right? I mean we deal with lease cycles, we deal with this IMI migration. SendTech in various quarters and various years tends to jump around more than just about any other business based on the lease cycles and equipment sales. So you could have a quarter where you have a large equipment transaction, and that's going to distort things.

What I think you should be focused on is that we will continue to outperform the market in that business, and we are continuing to reposition that business for long-term success. So -- why there might be pockets of different outcomes quarter-to-quarter, some will be better than others. The general trend is the same. We are repositioning that business. We're going to perform ahead of market, and we are shifting that business into new growth basis, which provide us much opportunity going forward.

**Peter Sakon** ***CreditSights, Inc. - Senior Analyst***

Great. And my last question is regarding CapEx. Can you give us -- do you think that the spending this year will be the same allocation on a per segment basis? I heard you say that the amount will be the same, but will the same amount for GEC, SendTech, et cetera? And then how long is the typical payback period for your investments?

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

Yes. So let me take that. So overall, around that $100 million level at the overall company will stay pretty steady. We will see a bit of a reduction in Global Ecommerce shifting that to the other 2 segments. In terms of the payback periods, one of the key priorities and Jason talked about this in terms of our discipline, we are more and more focused not only on long-term IRR, but on quicker paybacks. So as we are evaluating very thoroughly all the investments that we're making inside the business, we're looking well into that less than 2-year payback. And at times, we're really focused on the less than 1-year payback. So you'll see more and more of that as we make our decisions here go forward.

**Operator**

And I'll hand the call back over to Mr. Dies for any closing comments.

**Jason C. Dies** ***Pitney Bowes Inc. - Interim CEO***

Yes. Look, I appreciate the questions. I just want to reflecting on kind of a bunch of them. I want to make one final point. And that is, you should be walking away from this call clear that each of our BUs has growth potential, even as we drive efficiencies across the organization. And as Ana said, we're going to make the changes needed to capitalize on that potential.

We see a lot of opportunity in SendTech, specifically in the shipping business. We're taking actions to pursue that. Presort is a market leader. And as you heard, continues to perform in a way that is above market and certainly above many expectations, although not mine. And GEC has proven that our domestic model can work, and we're going to continue to take actions in the short term to drive that performance.

So with that, I think I will say thank you for your questions. As I mentioned at the outset, I am optimistic about what lies ahead for Pitney Bowes. We understand the challenges as well as the opportunities that we have in front of us. And as we look ahead to 2024, we're going to continue to operate with intensity and we're going to continue to prioritize actions that support increased operational discipline and importantly, also accelerate our shift in the targeted shipping growth path.

So with that, I will close, and we look forward to talking to you at the end of first quarter.

**Operator**

And ladies and gentlemen, that does conclude our call for today. Thanks for your participation and for using AT&T teleconference. You may now disconnect.