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PBI - Q3 2013 Pitney Bowes Inc. Earnings Conference Call

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OVERVIEW:

Pitney Bowes announced 3Q13 revenue of $939m and GAAP loss per share of $0.03. Management adjusted 2013 guidance for GAAP EPS from continuing operations to $1.39-1.54.

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Kartik Mehta *Northcoast Research - Analyst*

Shannon Cross *Cross Research - Analyst*

George Tong *Piper Jaffray - Analyst*

Ananda Baruah *Brean Capital, LLC - Analyst*

Chris Whitmore *Deutsche Bank - Analyst*

Glenn Mattson *Sidoti & Company - Analyst*

James Cappello *Invicta Capital - Analyst*

PRESENTATION

Operator

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

I would now like to introduce your speakers for today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President and Chief Financial Officer; and Mr. Charles McBride, Vice President - Investor Relations. Mr. McBride will now begin the call with the Safe Harbor overview.

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

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance.

Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our 2012 Form 10-K, annual report, and other reports filed with the SEC, that are located on our 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, there are non-GAAP measures used in the press release or discussed in this presentation. You can find reconciliations to the appropriate GAAP measures in the tables attached to our press release, and also on our Investor Relations website.

Additionally, we have provided slides that summarize most of the points we will discuss during the call. These slides can also be found on our Investor Relations website.

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

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

Thanks, Charlie, and good morning, everyone. Thank you for joining us.

Mike will take you through the specifics of the quarter, but I would like to start by putting our third quarter into the context of our longer-term strategy. Let me begin by saying I'm very pleased with what we were able to accomplish in the third quarter. Overall, we had very solid results, but more importantly, we got a lot done on our strategic to-do list.

We've laid out three chapters to our strategic transformation. Stabilize our mailing business, achieve operational excellence, and finally, drive growth in our digital commerce business. I will segment my remarks into those three chapters.

First, stabilize our mailing business. In the third quarter, equipment sales for SMB and production mail businesses increased 1% versus the prior year. Overall, SMB equipment sales were essentially flat. In fact, North America equipment sales turned into one of the best year-over-year comparisons in eight quarters. Equipment sales are a good leading indicator of financing, rental, supply, and support services revenue.

Perhaps most importantly, EBIT in our SMB business improved on a year-to-year basis, due in large part to the productivity initiatives we have been undertaking for the last several quarters. Our EBIT margin in this business increased 180 basis points.

This is the play we outlined earlier in the year. Stabilizing revenue, offset by substantial productivity opportunities. Again, our strategic intent in this business is to drive cash.

Second, achieve operational excellence. There are lots of ways to talk about operational excellence, and to my way of thinking, the benefits need to be found in the income statement, the balance sheet, and our cash flow. Adjusted EBIT grew 3.4% in the quarter.

We announced our intent to redeem $300 million of bonds, scheduled to mature in 2014, which further improves our balance sheet, and free cash flow from operations was $208 million for the quarter, and $440 million-year to date, positioning us very well for our full-year outlook. Driving this performance included improvements in our go-to market, our divestiture of our North American management services and Nordic furniture businesses, and substantial progress improving our working capital performance, driven by our initiatives around reducing inventory, and improving our DSO results.

Importantly, EBIT margin performance improved in SMB solutions group, enterprise solutions group, and in digital commerce. Finally, our digital commerce solutions business performed very well, driving more than 10% growth at constant currency.

Our e-commerce initiatives drove substantial growth, and our software license revenue increased on a year-to-year basis. Software licensing growth was critical to the long-term vitality of the business. This is exactly the recipe we need going forward.

Perhaps as important, we took one of our strongest leaders, Christoph Stehmann, and named him President of Ecommerce and Shipping Solutions. Christoph has been leading our production mail business, which you will recognize as the best performing business in the PB portfolio this year.

Beyond Christoph's outstanding recent performance, his very strong experience in logistics and commerce, and is one of the best strategic thinkers we have in our business. Christoph began his career at McKinsey.

You'll also note that we're reporting in our new segment structure. This is how we are running the business, aligning our business units by strategic intent and client set. I know it will improve our ability to operate, but it will also improve our transparency, which I believe is a key dynamic in today's capital markets.

We're taking important actions to create value for our clients and shareholders, investing in our products, our team, and our client relationships. At the same time, we're improving our capital structure. To that end, I would be remiss if I did not mention that we have signed an agreement to sell our corporate headquarters building, and plan to move into new space more suitable for our business.

As I mentioned earlier, we're very pleased with our third-quarter performance and feel good about where we are. As a result of our strong performance and year-to-year tax benefit realized in the third quarter, we're increasing the midpoint of our adjusted earnings per diluted share guidance from $1.70 to $1.76.

That said, I want to remind everyone that this is a long journey, and will not be a straight line to the top. Now, let me turn it to Mike for more detail on our third-quarter performance.

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

Thank you, Marc and good morning. Before I get started on our financial performance, I'd like to take a few minutes to note some of the recent actions that we finalized, in order to position our portfolio for growth, and to also point out the changes in our reporting structure that are effective this quarter.

First, and as Marc spoke about, we have finalized the sale of both our management services and Nordic furniture businesses. We recorded the operating results for these businesses in discontinued operations. We've also reclassified prior-period results to reflect these changes, and we will post these reclassified statements on our Investor Relations website.

Additionally, we've completed the first phase in realigning our business segment, consistent with the way we outlined the business at our analyst day. We are now reporting small and medium business, or SMB solutions group, the enterprise business solutions group, and the digital commerce solutions segment.

The SMB solutions group remains unchanged from the way we have been reporting it. The North America and international mailing segments are included in this group.

Enterprise business solutions group is comprised of our production mail segment; however, production mail now excludes the revenue and costs associated with our Volly product. It also excludes the document management software that was previously reported in the segment.

These are now included with our other software product, in digital commerce solutions. Our presort services segment is also reported under the enterprise business solutions group.

The digital commerce solutions segment includes the software that previously comprised our software segment, the document management software from production mail, Volly, Ecommerce, and marketing services. You may recall that this is how we outlined the business at analyst day, and how we will now manage and report the business on a go-forward basis.

We are working to break out our shipping solutions that are currently still part of the North American mailing segment. We expect that in the first quarter of next year, shipping solutions will be included as part of our digital commerce solutions reporting, since it is more closely aligned with our Ecommerce product.

Turning to the quarter, as Marc indicated, we continue to make significant progress in the implementing our long-term strategy, and are laying the groundwork for our transformative journey. When isolated, our actions may appear as one-time occurrences, but when taken in the aggregate, you will see the bigger picture is coming together.

For example, last quarter, we announced the sale of our North American management services business, and anticipated that we would close on the deal by the end of the year. Through the diligent efforts of our team, we were able to close this transaction in just under 65 days, from when we announced it.

By itself, this was a major effort, but when you add in the sale of our Nordic furniture business as well as a signed agreement to sell our world headquarters building, you will see that we've made significant strides in the implementation of our strategy. Additionally, we entered into an agreement to purchase our joint venture partner's minority interest in our Brazilian business, which will provide us with further opportunity in this emerging growth market.

The message is clear. We are pursuing the goals we set out for ourselves on analyst day. We are committed to stabilizing our core mailing business, while at the same time, investing in our growth initiatives.

We continue to rationalize our portfolio of products in the countries in which we operate. We are also reducing our cost structure, and continue to strengthen the balance sheet.

Turning to our financial performance for the third quarter, our results were relatively better than the second quarter, when you take into consideration the unusually strong performance of production mail in the second quarter, which added 1.8 percentage points of growth. Excluding that revenue growth from production mail, second-quarter revenue would have declined more than 2%, while revenue this quarter declined less than 1%. Revenue this quarter was aided by double-digit constant currency growth in digital commerce solutions, specifically from improving trends in Ecommerce and software.

During the third quarter, we had revenue growth in three of our five business segments, and EBIT margin improvement in all of our segments. SG&A continued to decline, both on an absolute dollar basis, as well as a percentage of revenue. We also were able to realize a nonrecurring tax benefit in the quarter.

Cash flow also improved when compared to the prior year and prior quarter. Let me take you through in more detail. For the third quarter, revenue totaled $939 million, this was a decline of less than 1% on a constant currency basis when compared to the prior year.

Revenue for the quarter on a constant currency basis grew 10.5% in the digital commerce solutions segment, grew 1% in the enterprise business solutions group, and declined 4% in the SMB solutions group. These trends reflect the end market dynamics that we outlined on analyst day. Adjusted earnings per diluted share from continuing operations for the quarter were $0.49 per share, which includes a $0.06 per share tax benefit primarily associated with an affiliate reorganization.

GAAP earnings per diluted share from continuing operations were $0.38, which includes a non-cash asset impairment charge of $0.08 per share related to the sale of the Company's headquarters building, and a restructuring charge of $0.03 per share. Including a net loss from discontinued operations of $0.40 per share, which was primarily related to taxes on the sale of the North American management services business, it was a net loss of $0.03 per share on a GAAP basis.

Adjusted earnings before interest and taxes, or adjusted EBIT, was $174 million this quarter, or 3.4% higher than the prior year. Adjusted EBIT margin was 18.5%. There was EBIT margin improvement in all of our segments this quarter, which resulted in an overall improvement of 80 basis points, when compared with the prior year. Adding back depreciation and amortization, adjusted EBITDA for the quarter was $228 million, or $1.12 per share.

SG&A for the quarter was $355 million, a decline of $16 million, or 4% versus the prior year. As a percentage of revenue, SG&A was 37.8%, which was an improvement of more than 120 basis points over the prior year. The improvement in our SG&A, while making investments in growth initiatives, is yet another byproduct of our long-term strategy.

We're making progress in our new go-to market model in North America mailing segment, which will improve our client experience, and make our cost structure more variable across this business. In the quarter, we recorded a pretax restructuring charge of $9 million, for actions that will benefit future periods. We also recorded a pretax $26 million asset impairment charge, related to the signed agreement to sell our headquarters building, which, when we move to another location, will result in lower ongoing operating costs.

Net interest expense, which includes financing interest was $46 million, which was $1 million higher than the prior year. The average interest rate this quarter was 5.25%, which was 59 basis points higher than the prior year. Average outstanding borrowings during the quarter were $398 million lower than the prior year.

The effective tax rate on adjusted earnings for the quarter was 18.6%, versus 24.8% last year. The lower tax rate this quarter was partially impacted by the nonrecurring tax benefit of $0.06 per share mentioned earlier.

Looking at free cash flow and the balance sheet, free cash flow during the quarter was $208 million, and on a GAAP basis, we generated $215 million in cash from operations. Year-to-date, we generated $440 million in free cash flow, and $494 million in cash from operations.

Cash flow this quarter benefited from lower working capital requirements as a result of aggressive inventory and accounts receivable management, which improved working capital by approximately $16 million, versus the prior year. Cash flow also benefited from the timing of tax payments. During the quarter we returned $38 million of cash to our common shareholders in the form of dividends, and had $14 million of restructuring payments.

We had $3.7 billion of debt on the balance sheet at the end of the quarter. This was $367 million less than at the end of last year. Additionally, we announced that next month, we will redeem $300 million of bonds that were originally scheduled to mature in August 2014, using the net proceeds from the sale of the management services business.

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

North American mailing revenue for the quarter was $423 million, and EBIT was $167 million. North American mailing revenue declined 5.2% on a constant currency basis, and 5.6% on a reported basis versus the prior year. North American mailing equipment sales declined less than 1% versus the prior year, which was an improvement over prior-quarter trends.

Recurring revenue streams declined at a lesser rate than the prior year, but it was not an improvement when compared to the second quarter this year, due to lower financing and investment income on postage loans and deposits. EBIT margin was 39.6%, an improvement of about 190 basis points versus the prior year, due to ongoing cost reduction initiatives, including the change in the segment's go to market model. International mailing revenue for the quarter was $142 million, and EBIT was $15 million.

Year-over-year revenue grew 1% on both a constant currency and reported basis. Revenue benefited from growth in equipment sales, supplies, and support services in Europe, and increased meter placements in India. EBIT margin was 10.9%, which was an improvement of about 300 basis points over the prior year, due to ongoing cost reduction initiatives.

Turning to the enterprise business solutions group, production mail revenue for the quarter was $116 million, and EBIT was $11 million. Year-over-year revenue increased by 2% on a constant currency basis, and 1% on a reported basis. Revenue benefited from the sales of inserting equipment in North America, and the installation of a production print order in Asia-Pacific.

Supplies revenue grew as a result of increased base of production print installations, but was partially offset by lower support services revenue. EBIT margin of 9.1% was an improvement of 30 basis points versus the prior year, due to growth in revenue and gross margin improvement.

Presort services revenue for the quarter was $105 million, and EBIT was $20 million. Year-over-year revenue declined less than 1%, due to the impact of lower direct mail volumes, which offset higher first-class mail volumes related revenue. EBIT margin of 19.4% was an improvement of 130 basis points when compared to the prior year, due to operating expense reductions, which included the consolidation of some facilities.

Turning to the digital commerce solutions segment, revenue was $152 million, and EBIT was $10 million. Year-over-year revenue grew 10.5% on a constant currency basis, and 9% on a reported basis. Segment revenue benefited from a 5% increase in software revenue, and a more than 20% increase in business services revenue.

The growth in business services revenue was driven by an increase in transactions associated with the Company's e-commerce solutions, for cross-border package delivery. Business services revenue included a decline in marketing services revenue. EBIT margin for the digital commerce solutions segment was 6.7%, an improvement of about 460 basis points versus the prior year, primarily due to a lower cost structure in software.

That concludes my comments on our business performance this quarter. Now I'd like to update you on our 2013 guidance. The Company is reaffirming its 2013 annual guidance for revenue and free cash flow.

The Company still expects annual revenue, excluding the impact of currency, to be in the range of a 1% decline to 2% growth, when compared to 2012, and free cash flow to be in the range of $575 million to $675 million. The Company is updating its 2013 annual guidance for adjusted earnings per share, and for GAAP earnings per share from continuing operations, to reflect the restructuring and asset impairment charges, and a tax benefit recorded in the third quarter, as well as the expected costs related to debt retirement in the fourth quarter.

The Company now expects adjusted earnings per diluted share from continuing operations to be in the range of $1.68 to $1.83. This includes the $0.06 per share tax benefit recorded in the quarter. The Company also now expects GAAP earnings per diluted share from continuing operations to be in the range of $1.39 to $1.54.

This guidance includes $0.10 per share for the restructuring charges recorded to date, $0.08 per share for its asset impairment charge related to the signed agreement to sell our headquarters building, $0.08 per share for costs associated with the first-quarter debt tender, and $0.03 per share for a charge related to the estimated net cost associated with the planned early redemption of $300 million of debt in the fourth quarter.

This guidance excludes any additional restructuring actions that may occur as the Company implements plans to further streamline its operations and reduce costs. That concludes my remarks. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Marc, I wanted to ask you about the equipment sales and what you think is a primary reason that you're starting to see improvement in that area?

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

Well, as we laid out since the beginning of the year, we saw this trend beginning to materialize. So Mike has spoken about this for the last several quarters, and in some ways, it's just materialization of what we've seen in the execution of the business. So I don't think it's a lot more complicated, and totally consistent with how we saw this unfolding.

Kartik Mehta - *Northcoast Research - Analyst*

And then if you look at North America mailing, constant currency was down about 5%. As you look at that business segment, what would you anticipate the trajectory of that business to be? Are we at a point where the decline in that business will be right around where it is now, or is there an opportunity for that to improve, as you look at what the business conditions are like?

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

Kartik, it's Mike. To address that, I'd say the key is what last your first question around, which is getting the equipment sales line moving in the right direction. And certainly, we saw the third quarter as an improvement over the trends over the last several quarters, and that's a leading indicator, ultimately, of what will drive recurring revenue streams.

While we did see a little bump in the road in recurring revenue streams this quarter, we still believe the trajectory over the longer term is for improvement, particularly as we drive the equipment sales side of the equation. So our outlook remains the same. We're looking for stabilizing trends in the revenue, and as you saw, continuing improvement from a margin standpoint.

Kartik Mehta - *Northcoast Research - Analyst*

And Mike, just last question, your use of free cash flow as you go into next year, and you've done a very good job of getting the balance sheet better. As you look at where the balance sheet is now, and where your debt is. Going into next year, your use of free cash flow, will it be to continue to pay down debt, or are there other opportunities for you?

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

We will continue to use a balanced approach, as we look at it. We obviously will get the $300 million paid down in November. That's post the PBMS disposition.

I think that puts us in good stead from a ratio standpoint, but we'll continue to manage our investment grade ratios. As well as look at -- we're making certainly investments in the business, and then we'll look at acquisition and share repurchase as alternatives as we go forward.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much. I appreciate it.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

I have two questions. My first is can you talk a bit more about the Ecommerce solutions, what you're seeing in terms of specifics on expansion countries, revenue, anything you can give us as background on how that business is trending?

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

Sure. In terms of the Ecommerce business, we're up to about 37 countries that we offer that product in. That's in partnership with eBay. We obviously offer to a number of Ecommerce providers directly as well.

We've continued to see good growth in the revenue base as a result of significant growth in the number of packages shipped. As you know, we've seen sequential growth over the last four quarters. And it was the biggest contributor to that business services growth in the digital commerce solution segment.

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Shannon Cross - *Cross Research - Analyst*

Okay. And Mike or Marc, in terms of the Nordic furniture business, which I've covered your stock for a long time, and I didn't realize you sold furniture, I suppose I should have. But are there any other of those businesses that are hanging out there to be pruned from the portfolio or do you feel like things are pretty much cleaned up now?

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

Yes. I would say the Nordic furniture business, I think we've referenced it once about a year ago, but it is a relatively small business. It came in with an acquisition of a mailing dealer in the Nordics several years ago, and it was a product line really that didn't fit with the overall direction and the strategic approach that we're taking.

I would say we continue to look at both product lines and geographies where we don't see significant strategic fit and/or value generation. I would say, we have addressed a lot of the biggest things in the portfolio, so anything beyond this might be more modest in scale.

Shannon Cross - *Cross Research - Analyst*

Okay. And then with the sale of the headquarters building, can you talk a little bit about how we should think about potential benefit from that, both from a cash perspective as well as -- you mentioned lower operating expense, although I would assume you would have rent, so how would we think about that note in 2014?

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

In terms of this building, I think the operating expense savings is part of what we outlined as part of our $100 million to $125 million target of reducing expenses. There will be fairly good savings relative to owning this building, and the depreciation in the building is obviously bigger than our needs going forward.

We are able to leverage some of the other facilities we have, and then focus on a smaller footprint headquarters. So we do think there's meaningful operating savings, as I said, in concert with our overall program to reduce costs.

In terms of cash we expect to exit the building probably mid-year 2014 as we get online with the new space. And we would realize the cash from the sale at that point in time. It's less than $50 million of cash we would expect out of the building.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. One last question, sorry about this, maybe Marc, could you talk a little bit about what's going on in North America mailing in terms of specifics on the recurring revenue stream? You talked about having lower income from some of the mailing -- the support services that you provide to people for postage. But any specifics -- is this pricing? Is this anything that you think will be recurring, or does this have more to do with interest rates are at, and what you can charge?

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

Shannon, it's Mike. We take deposits from customers for reserve account. The average balances were down a bit year-over-year.

That fluctuates, so when we're talking about differences between second and third quarter we're talking about pretty small amounts here, so that was a driver between the quarters. We still think that the ongoing trajectory of this recurrent revenue stream base will go in the right direction.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you very much.

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

First question, on digital commerce solutions, could you provide some color on how location intelligence performed within digital commerce? That's a pretty big segment, contributing about $200 million in revenues. And then I have a couple follow-ups. Thanks.

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

Sure. Location intelligence performed well, particularly for our enterprise level customers, where we have seen continued leverage of that, particularly in mobile applications. So as we outlined at analyst day, that's one of the growth areas that we see as providing a good opportunity for driving software growth. And we did see, as I said, good results in that in the enterprise segment.

George Tong - *Piper Jaffray - Analyst*

Got you. Where would you say the majority of growth in digital commerce came from? Would you say it was from parcel management, given it's a smaller part of digital commerce currently, so would you say that's the majority of where the growth came from?

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

Yes. Ecommerce certainly drove the bulk of the overall growth rate, just because of its growth during the course of the year. We're starting from a very small base last year, and had good ramping of the revenue base, so it's contributed meaningfully to the growth rate.

But we did see software growth of 5% on a year-over-year basis, on a reported basis, and 7% on a constant currency basis. So it's balanced but certainly the Ecommerce contribution was greater to the overall growth rate.

George Tong - *Piper Jaffray - Analyst*

That's helpful. And then related to that, if you look at margins for Ecommerce -- digital commerce solutions for the quarter, it was 6.6%. That was on the lower side of my expectations. Would you expect that to go higher over time, especially in the context of mitigating some of the higher margin declines in the SMB businesses?

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

Yes. That margin is really a mix. Right? It's a mix of a software business margin that's somewhat more mature, along with really net investment in new businesses like Ecommerce, Volly, and even some of the shipping businesses. So the margin is reflective of that combination of investment, and some more mature businesses.

George Tong - *Piper Jaffray - Analyst*

That's helpful. And have you given a target of where you would like to see margins go to for digital commerce?

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

Again, it will be a bit of a blend, but we've outlined what we think are typical margins we should get in the software components of this business. Ecommerce is a mix of services and software, so that may be a little less, but certainly in a mature state, much higher than what we see today.

George Tong - *Piper Jaffray - Analyst*

Got it. And my last question, related to your business portfolio reconciliation, could you tell us a little bit more about the Brazilian JV interest that you acquired, and related to the Nordic furniture business, was that a margin-dilutive business?

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

Let me answer the second part first. Yes, the Nordic business was margin dilutive. It was relatively low margin, because we have resold other manufacturers' furniture, we didn't manufacture the product.

In terms of Brazil, we have developed a joint venture relationship over the last several years, really to enter the Brazilian mailing market. We today have our digital product in market there.

We see opportunities both in the mailing and the software space, software was not originally included in that JV, so one of the benefits of taking 100% ownership of that business is to allow us to better take advantage of the total opportunity in the market, by bringing those businesses together. It's a relatively small business today, but obviously an end market with growth potential.

George Tong - *Piper Jaffray - Analyst*

That's very helpful. Thanks for the insight.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Marc and Mike, I was wondering if you could talk about metering trends, small business metering trends, both in the US and Europe? And what changes, if any, that you saw through the quarter? Thanks.

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

Yes. Sure. In terms of North America I don't think we've seen any real change in the trajectory of the meter base. I think it's been relatively constant in Europe. We've seen actually improving meter base metrics in a number of those markets. And that's reflected, I think, in what's already a relatively stable and modestly growing revenue base.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. And expectation is for continuation of those trends, not seeing anything that would shift that in the --

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

We don't see anything that should change that trajectory.

Ananda Baruah - *Brean Capital, LLC - Analyst*

And with regards to the recurring revenue, the change in the postal business, is that the only impact, the only shift in the recurring revenue stream that you have seen and are expecting?

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

Yes. As I said, I think, quarter-to-quarter these things can vary. We're talking about $1 million to $2 million of differential here, and we don't see any significant changes in outlook, relative to what we have been talking to.

Ananda Baruah - *Brean Capital, LLC - Analyst*

If you do the math, do you expect recurring revenue trends to begin to improve again going forward, or should we expect things to flatten here maybe?

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

Again, we have a longer-term objective here of stabilizing the mail revenue base, and the recurring revenue streams are certainly part of that. And we continue to view that as a key strategy.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Okay. Got it. And then for the revenue growth guidance, the maintenance of that, just back of the envelope math for me suggests sequential growth in the December quarter, something mid-teens or maybe a little bit better, to get it up into the range.

And maybe there's currency that I'm not accounting for, but is that better than typical seasonality? Is that what is baked into your guidance? And if so, what gives you the conviction to see that to get up into the revenue growth range? Thanks.

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

You're talking about total revenue growth?

Ananda Baruah - *Brean Capital, LLC - Analyst*

Total revenue growth.

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

Yes. Obviously, in terms of the fourth quarter as we look ahead, if you look at the trends in the business, particularly the digital commerce space, positive growth there, and improving trends across the rest of the business, we feel obviously in reaffirming the guidance, that we have the opportunity to do that for the full year.

Ananda Baruah - *Brean Capital, LLC - Analyst*

And Mike, last one for me, I guess just we had a strong June quarter in production mail. Obviously, September quarter being a little lighter relative -- I was surprised. What are you expecting for December quarter from production mail?

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

Well, production mail, keep in mind, that can be include influenced quarter-to-quarter by big deals. And second quarter, as we pointed out at the time, I think picked up some benefit from things that didn't close in the first quarter, and probably got some things closed that would have otherwise closed in the third quarter.

So that was a bit of an aberration at 18% growth. If you look back at what we said was the outlook for this space as a whole, low to mid-single digits, is an appropriate growth rate but that is going to vary quarter-to-quarter.

Ananda Baruah - *Brean Capital, LLC - Analyst*

I got it. So maybe smooth those two quarters and we can get a sense of the run rate that you are on?

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

Yes. I think if you look at the second quarter as probably an unusual quarter, then you can use that as a view of the trending.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Okay. Thank you very much.

Operator

Chris Whitmore, Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

I wanted to follow-up on that last line of questioning, with respect to your base. I'm a little confused as to why your recurring revenues would stabilize within your mailing business. If you don't see any change in trend occurring within your install base. So in other words, if your install base continues to decline at this rate, why would the recurring element stabilize?

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

Yes. In terms of what drives that there's a couple of things, Chris. One is, if you look at the equipment sales side, obviously to the extent that we can drive growth in equipment sales, that will add to the base.

THOMSON REUTERS

The second is supplies, as a component of recurring revenue streams. Obviously the install base of connect pluses can drive more positive supplies revenue streams over time.

And then obviously, pricing selectively in different markets can have an impact on those streams as well. So it's really a combination of factors that we would expect to help improve that over time.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. And I wanted to follow-up and ask about the software business.

If I look at typical seasonality in the software business, and going back to 2010, 2011, it looked like that business would typically be up high single digits, maybe even low double digits quarter-on-quarter. Yet this quarter it was actually down slightly, sequentially.

So I'm trying to understand what you're seeing in terms of underlying strength or sustainability of growth in software on a go-forward basis, because this quarter you had a pretty easy compare, and seasonally, it looked sub-seasonal. So can you maybe describe what your expectations are over the next 6 to 12 months in software, and what kind of growth we should expect going forward?

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

Sure. Software first of all was up about 5% year-over-year on a reported basis, about 7% on a constant currency basis in terms of the software revenue line. So back to a growth comparison.

In terms of seasonality and that, I would say the software business has some similar characteristics of the production mail business, in that on a quarter-to-quarter basis, it can be influenced by a big deal here or there, where we have enterprise software license agreements. So the goal here over the next 6 to 12 months is to continue to improve our go to market capability, to build strength in terms of our channels, and continue to drive those products, particularly in the enterprise software space into the marketplace.

So I would say this quarter was a step in the right direction, but we still have more work to do from a channel perspective. But we would expect to see this to continue to improve.

Chris Whitmore - *Deutsche Bank - Analyst*

What were license sales year on year?

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

I don't have that number off the top of my head.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Glenn Mattson, Sidoti.

Glenn Mattson - *Sidoti & Company - Analyst*

Most of my questions have been answered, but when you think about software and the importance it's going to play in growing the business, are there any products that are -- maybe this is for Marc, but as you get more comfortable with the business, are there any products in the software segment that stand out as potential growth drivers?

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

Yes. I think it's the ones we talked about in May. We look at our location-based solutions as being very well-positioned competitively, and as I visit with our clients, very good feedback from our clients.

We certainly think our shipping and Ecommerce were -- again, we're seeing good growth there, and getting very good feedback from our clients. So we think our software around our sorters inserters is well-positioned.

So I don't see any materially different opportunities for growth in those businesses, than what we've seen so far. And as I look at, not only what we've accomplished in terms of prosecution of the quarters, but also activity with clients, I'm very encouraged in terms of what we see going forward.

Glenn Mattson - *Sidoti & Company - Analyst*

And then, in terms of Ecommerce, obviously the business with eBay's been a tremendous success. Are you having conversations? Do you see any opportunity to broaden that out amongst any other potential big partners?

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

Yes.

Glenn Mattson - *Sidoti & Company - Analyst*

Okay. Great. Thanks.

Operator

(Operator Instructions)

[James Cappello], Invicta Capital.

James Cappello - *Invicta Capital - Analyst*

You mentioned how much revenue was from that Nordic furniture business. And what was it?

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

The annual revenue in 2012 was about $68 million, and its run rate per quarter was between $12 million and $15 million a quarter. The financial statements had been restated to exclude the results of the business, and treat it as discontinued operations.

James Cappello - *Invicta Capital - Analyst*

Great. Thank you.

Operator

Thank you, and at this time there are no questions in queue. Please continue.

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

Great. Thanks, operator. And thank you, everyone. As I said at the beginning of the call, I'm quite pleased with our third-quarter performance and encouraged, very encouraged, by our ability to execute against the strategy that we laid out earlier this year. As you can see in this quarter's results, we're not only focused on driving efficiency into our business, but we're also focused on growing our business.

In the third quarter we realized double-digit growth in our digital commerce business, grew EBIT in our SMB business, and the summation of these two dynamics drove very strong cash flow. We have tremendous opportunity before us, and the steps and actions we've taken over the past few quarters will further solidify our position for the future.

I've said this before, this will take some time. But we're on the right track and we're very focused on finishing the year in a very strong manner. Thank you again for your time, and we look forward to speaking with you soon.

Operator

Thank you, ladies and gentlemen. This conference will be available for replay after 10.00 AM today running through November 29, till midnight. You may access the AT&T replay system at any time by dialing 1-320-365-3844, and when prompted, enter the access code of 303326. Those numbers again are 1-320-365-3844, access code 303326.

That does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.