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PBI - Q1 2012 Pitney Bowes Inc. Earnings Conference Call

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OVERVIEW:

PBI reported 1Q12 revenues of $1.3b and GAAP diluted EPS of $0.79. Expects 2012 GAAP diluted EPS from continuing operations to be $2.22-2.42.

CORPORATE PARTICIPANTS

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

Murray Martin *Pitney Bowes Inc. - Chairman, President and CEO*

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

CONFERENCE CALL PARTICIPANTS

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

Shannon Cross *Cross Research - Analyst*

Chris Whitmore *Deutsche Bank - Analyst*

Hale Holden *Barclays Capital - Analyst*

Eric Haas *FO Capital - Analyst*

Chris Orski *Bow Street, LLC. - Analyst*

Ben Glaze *Apollo Global Management - Analyst*

PRESENTATION

Operator

Good afternoon and welcome to the Pitney Bowes first quarter 2012 earnings results conference call. Your lines have been placed in a listen-only mode during the conference call until the question-and-answer segment. Today's call is also being recorded. If you have any objections you may disconnect your lines at this time. I would now like to introduce your speakers for today's call, Mr. Murray Martin, Chairman, President, and Chief Executive Officer; Mr. Michael Monahan, Vice Executive President and Chief Financial Officer; and Mr. Charles McBride, Vice President, Investor Relations. Mr. McBride will now begin the call with a Safe Harbor overview.

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

Thank you. 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 2011 Form 10-K Annual Report and other reports filed with the SEC that are located on our website at www.pb.com by clicking on Our Company and 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. Now, our Chairman, President, and Chief Executive Officer, Murray Martin, will start with an overview of the quarter. Murray?

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

Thanks, Charlie. Good morning and thanks, or good afternoon and thanks for joining us. I'll start by sharing some thoughts on our business. Mike will follow with details on our first quarter results and then I'll discuss our outlook for 2012. After that we'll take your questions. Our financial results and business developments during the quarter point to the progress that we are making against our long term goals as well as some near term stabilization in parts of our business. The benefits from our previous actions to improve productivity and reduce costs enabled us to increase our EBIT margins in four of our seven business segments, which in turn enabled us to grow our overall EBIT despite a decline in revenue. Although the total revenue was down during the quarter, we did also have growth on a constant currency basis in four of our seven business segments.

Additionally there were several other positive factors in our SMB business. We had improving trends for equipment sales and this was led by our Connect+ digital mailing system in lieu of lease extensions and improved customer retention rates. We also continued to move forward with our long term strategies to enhance value. During the quarter we reached several key milestones in the areas of software and digital solutions that mark our progress in expanding our value proposition beyond physical mail. We're pleased to note that at the end of the quarter, we signed a multi-year agreement with Facebook to offer global geocoding, reverse geocoding and other location intelligence applications in data for integration into Facebook's applications and services. Our best of breed technology will provide Facebook developers, and ultimately their users, high performance, high precision location processing across desktops, laptops, tablets and mobile platforms. This is a great example of the kinds of solutions we are developing to help our customers deliver more personalized relevant communications to their customers.

Our Volly, secure digital mail delivery platform and our SMB customer communications solutions are other examples of the solutions where we are increasing investment and are deploying to help customers of all sizes manage their communications in a changing communication environment. Earlier this quarter we announced a partnership in which Australia Post will become the first national post to incorporate Volly into its digital offerings. Australia post delivers more than 5 billion pieces of mail annually to more than 10 million households. The service will launch later this year. We're continuing to invest in Volly in the US as we move forward toward an initial consumer launch in the fourth quarter.

The phased global rollout of our Connect+ product line will continue throughout the year. We launched Connect+ in Germany at the end of the first quarter and are planning a third quarter launch in France. This month we'll launch a small business cloud connected metering solution to web enable more of our mailing customer base. We're also partnering to integrate and expand our global eCommerce capabilities. As a result, we have decided to increase our investments in the second quarter to bring these new solutions to market more quickly to take advantage of emerging and growing opportunities. To take advantage of these incremental investment opportunities, we're expanding upon our productivity initiatives. We believe that these actions will enable us to accelerate investments for growth while delivering expected adjusted earnings within our annual guidance range. Now let me turn it over to Mike for a discussion about our first quarter financial results.

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

Thank you, Murray. Our revenue for the quarter was $1.3 billion, a decline of 4% excluding the impact of currency. As Murray noted, on a constant currency basis revenue benefited from growth in four of our seven business segments which includes International Mailing, Software, Mail Services, and Marketing Services. However while SMB equipment sales comparisons improved year-over-year there continue to be declines in the SMB recurring revenue streams. Also revenue is adversely impacted by weakness in the Production Mail and Management Services businesses.

I want to note that there was also a one-time $10 million reduction in revenue this quarter due to an adjustment to a deferred revenue accrual. Excluding this adjustment, rental revenue declined 6% year-over-year and financing revenue declined less than 8%.

Breaking down our revenue for the quarter between US and non-US operations, US revenue declined by 4%. Outside the US, revenue declined by about 7% on a reported basis and about 5% excluding the impact of currency. Non-US operations represented 31% of our total revenue.

Adjusted earnings before interest and taxes was $211 million this quarter and excludes the impact from the sale of leveraged lease assets in Canada. The adjusted EBIT margin this quarter was 16.8% which was an increase of 90 basis points versus the prior year. EBIT margin benefited from favorable margin trends in a majority of our business segments this quarter.

Turning to selling, general and administrative or SG&A expenses, it declined by more than $15 million when compared with the prior year. SG&A continues to benefit from previous and ongoing productivity initiatives as well as improved credit experience.

On a segment basis, EBIT margins this quarter improved year-over-year in four of our seven business segments. The North American Mailing segment improved its year-over-year EBIT margin for the 7th consecutive quarter and our Software, Mail Services and Marketing Services segments also had improving EBIT margins. These improvements are primarily a result of our continued focus on increasing our operating efficiency across all our businesses and the benefits we're realizing from our previous strategic transformation initiatives.

When we add back depreciation and amortization to our adjusted EBIT, adjusted EBITDA for the quarter was $276 million or $1.37 per share. Net interest expense in the quarter including financing interest was $49 million, a decrease of about $2 million when compared with the prior year. The average interest rate in the quarter was 4.71% which was 10 basis points lower than last year. The effective tax rate for the quarter on adjusted earnings was 19.4% versus an effective tax rate of 29.9% last year. The lower tax rate this quarter was primarily due to the resolution of additional tax matters with the IRS related to years 2005 through 2008. As a result, during the quarter we realized a net tax benefit of about $22 million in continuing operations or $0.11 per share. Excluding the net impact of the unusual tax adjustments, our tax rate on adjusted earnings from continuing operations would have been about 33% this quarter.

Now let's turn to our adjusted earnings per diluted share which includes the $0.11 per share tax benefit I just noted. Adjusted earnings per diluted share from continuing operations for the quarter was $0.63. However, on an underlying operational basis, consistent with our annual guidance you would exclude the $0.11 per share tax benefit. On this basis, adjusted earnings per share for the quarter was $0.52 which is comparable to the $0.53 we earned last year. GAAP earnings per diluted share for the quarter increased 87% versus the prior year to $0.79. There are two specific items causing the difference between adjusted earnings and GAAP earnings this quarter. First, GAAP earnings per diluted share included a net benefit of $0.06 per share related to the sale of leveraged leased assets in Canada. Second, we resolved additional tax matters with the IRS related to our former Capital Services business. This resulted in a $0.10 per share net tax benefit in Discontinued Operations in the quarter.

Now let me update you on our cash flow and capital structure. Free cash flow for the quarter was $211 million. In comparison to the prior year, free cash flow was impacted by higher working capital requirements due to timing of disbursements, higher CapEx investment and less of a benefit from finance receivables. During the quarter we returned $75 million of cash to our shareholders in the form of dividends and made $26 million of payments related to our restructuring program.

We also made voluntary contributions of $85 million to our US pension fund and $10 million to our Canadian pension fund. As a result, we estimate our US pension plan is now about 95% funded and our Canadian pension plan is about 85% funded. As a reminder, both our US and Canadian pension plans will be frozen as of the end of 2014. We are changing our investment strategy and managing our pension asset mix to reduce the volatility of future pension expense and cash contribution requirements. This is part of our overall strategy to better match the value of our assets to our liabilities. We did not purchase any shares of our common stock this quarter.

As of the end of the quarter we had $178 million of commercial paper outstanding, primarily as a result of retiring $150 million of our term debt during the quarter, so our expectation that we will pay down a portion of this commercial paper balance during the year. We have $400 million of additional debt scheduled to mature in October. We're currently evaluating our alternatives on how best to manage our debt portfolio including refinancing through new term debt, commercial paper, cash, or a combination of these three options. At the end of the quarter, about 76% of our total debt was fixed rate and 24% was floating rate. In April we also renewed our bank line of credit for $1 billion for a term of four years. This line of credit supports our commercial paper program. So that concludes my remarks, now Murray will discuss our guidance and we'll have some closing comments.

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

Thanks, Mike. We're updating our 2012 annual guidance for GAAP earnings per diluted share from continuing operations to reflect the net tax benefits realized in the first quarter and the net benefit from the first quarter sale of leveraged lease assets in Canada. We now expect GAAP earnings per diluted share from continuing operations to be in the range of $2.22 to $2.42. This includes $0.11 per share of net tax benefits and a $0.06 per share benefit from the sale of leveraged lease assets in Canada. Excluding these two items, adjusted earnings per diluted share from continuing operations for 2012 are expected to be in the range of $2.05 to $2.25. We still expect revenue excluding the impacts of currency to be in the range of 2% growth to a decline of 2% as compared to 2011. We also still expect free cash flow to be in the range of $700 million to $800 million.

Keep in mind that all of our guidance reflects a postal and economic environment that is not expected to improve nor deteriorate significantly for the rest of the calendar year. Our growth strategies are based on continuing to increase the value of our core mailing offerings while developing a range of offerings that help our customers manage across physical, digital and hybrid communications channels. During the quarter, we made progress on both fronts and we are excited about the opportunities ahead to do even more. So thank you and now let's have your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ananda Baruah, Brean Murray.

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

Thanks, guys, for taking the question. Murray or Mike, the first thing is -- given the revenue results for the March quarter, and some of the trends in Enterprise, can you talk about the confidence for maintaining the revenue guidance for the year -- the revenue guidance range, thanks. And then I have a follow-up.

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

Sure. As we look at what we have across the year, we see our revenue improving as we move out into the year. We did have some significant negatives in the first quarter on delayed purchases, and we would expect some recovery on that later in the year.

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

And I guess you're referring probably, Murray, to equipment sales. Can you just give us some -- ?

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

Yes, Production Mail in particular was where we saw the largest weakness. We had the large ticket deferrals. We didn't really see anything there in lost business. It was really more of deferral, and it sort of reminds us of -- a number of years ago we had that, and then it came back afterwards. So, we're seeing some sectors you see in Europe with the situation there, that there are delays, and then some delays again in the financial services sector in the US.

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

Got it. And are there signals from your customers that they're expecting to get back to doing business in the second half of the year, just pausing now for cautionary reasons, or is it just saying -- we're hoping like normal seasonal patterns hold in the second half?

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

We're seeing them looking at how they will manage their structure during the year, and then we have DRUPA, which is going on now, which is what stimulates a lot of effect. That's the big show in the production mail and print section where all the customers go. So, a lot will hold back until then, so that they can see everything that's new and exciting out there. And so, we'll be showing them how the integration of all our new technology goes into place, and we expect positive outcomes from that. Although, of course, with the large ticket, it does have a little lag on the install side. But that's what gives us some confidence that we will be inside that range.

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

Got it, thanks. And just one on the OpEx, if I could. The OpEx you actually were a little bit better on OpEx dollars this quarter than I had modeled, but you spoke to pulling investments forward in a number of areas beginning this quarter. How should we think about those things balancing out? Can you give us some sense of how the incremental OpEx dollars might be spread?

And then, the last one actually is -- was there an outstanding, was there a DRUPA expense that was material, that will go away starting in the September quarter as well? Thanks.

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

Sure, it's Mike. Just to respond to that -- what we noted was, yes, we do need to accelerate some investments because of the opportunities that have presented us, obviously, Australia is a good example with Volly of one, but what we're doing is enhancing some of the strategic transformation efforts that we had underway to generate benefits. We may not get a perfect matching in the second quarter between those investments and savings, but we certainly think, for the full year, there should be no net impact of the investments because of the additional savings opportunities that we have.

With respect to DRUPA, it's an expensive show to attend, but not one that we see as material to our overall operating expenses.

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

Got it. So, I know you don't give quarterly guidance, so I just want to push around on that a little bit, if I could, just because you're talking about increasing the OpEx, but maybe not seeing some revenue until the back half of the year. I guess what that would suggest, Mike, is that we should expect OpEx probably as a percent of revenue to go up, and if we're modeling flattish revenue assuming street is in the ballpark on revenue, then that could actually suggest, all things equal, that you might see EPS actually decline a couple of pennies, a penny or so in the June quarter. Is that logical thinking?

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

I mean, OpEx is always driven in large part by the revenue relationship, so our focus is on continuing to manage the costs down and obviously balance that with the investments we have to make.

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

Okay, thanks.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thanks. Following up on DRUPA, I was at your booth over there, and clearly you were highlighting a lot of the new stuff that you actually had at the pre-DRUPA event as well. I'm just curious -- do you think you had any of the so-called DRUPA effect in your numbers this quarter, or do you think it was more economy driven on the production mail side?

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

I think it was probably 50/50. There are some deals that do hang until DRUPA, but then certainly the instability in the market in Europe had an effect on us, and some of the financial services in the US I think held up somewhat as well, so I'd say it was a mix. I wouldn't put it all on DRUPA, so I'd say half economic and half DRUPA.

Shannon Cross - *Cross Research - Analyst*

Okay, and then I wanted to talk a little bit about the improved sales trends in your SMB businesses with Connect+ and all of that. You talked about improved customer retention rates. I'm just curious to see if you're doing things differently that are driving more sales, or if it's actually indicative of maybe a little bit of a turn in terms of the health of the SMB market?

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

Sure. There's several things that we're doing on that front. One is -- we've talked about the PB Smart products, and the opportunity to bundle together those products with our traditional products. And we've seen that have a positive effect on customer retention when we enhance the overall value proposition by providing them both our digital and traditional physical products.

The other is, particularly at the high end of the marketplace, we focused on placing more new equipment. In fact, our lease extensions are down about a quarter versus the prior year, about 25% versus the prior year, and we've seen increased placement of the Connect+ new machines. And so, that, plus some of the channel actions we're taking to both do our traditional direct selling, adding more telemarketing capability, as well as adding some dealer capacity in the US, I think are all part of helping that overall improvement in the sales rate.

Shannon Cross - *Cross Research - Analyst*

Okay, and then Mike, I had a question on your CapEx. You noted higher CapEx. Was that related to Volly or [where does that play in]? (multiple speakers)

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

No, actually the majority of the CapEx -- almost all of it was related to rental assets, and about half of that was in the DMT business in Europe, and the other half was metering assets.

Shannon Cross - *Cross Research - Analyst*

And is there a reason why rentals are relatively a lot stronger? Is it a different sales proposition that is -- ?

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

The production mail one is a little bit unusual. It was a large multi-year deal. The rental assets related to meters are consistent with more placement of new equipment.

Shannon Cross - *Cross Research - Analyst*

Okay, and then my last question -- sorry, I've got about four in here, but can you talk just a little bit about the magnitude of the investment that you're talking in terms of the increase in Volly? And then, if we can assume we'll start to see revenue from Volly once you launch it, whether it's later this year or early next year, is it that the revenue will start, albeit probably pretty small, but will start coming through immediately upon launch?

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

Yes, I would say the best way to look at it, if you'll recall when we gave annual guidance, we said we expected Volly to cost us an additional $0.05 to $0.10 versus the prior year, and we will probably tend more towards the higher end of that equation than the lower end. We'll also -- investing in eCommerce, in terms of building out that capability more broadly. So, those are the two primary areas where we would see the increased investment. And then we mentioned that we're launching a new web-connected metering product more towards the lower end of our product line in the second quarter, so there's some additional launch costs associated with that.

Shannon Cross - *Cross Research - Analyst*

And then revenue will start when Volly kicks in?

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

Yes, Volly is going to be a build on revenue, something like the Australia deal where it's more of a licensing arrangement will be a multi-year revenue stream. Volly in the US would build as we bring in consumers, and you have them enable bills to be delivered digitally, so, that will be a slower build. I would not anticipate that to be a meaningful revenue contributor in 2012.

Shannon Cross - *Cross Research - Analyst*

Okay, great. Thank you.

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

Thank you.

Operator

Chris Whitmore, Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

Thanks very much. I wanted to follow-up on the Volly question, and specifically around the revenue model. Can you give us a sense -- it sounds like you're using two different revenue models here -- a licensing model and a price per click kind of model driven by the consumer. Can you talk through the revenue model, and how you expect that to play out as it builds?

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

Yes, there really are two models. So, in the case of Australia, it's more of a technology, providing technology and services, so more of a contractual-based revenue stream. In the case of the US model where we would provide the consumer application to the consumer for free, and then really have a model where we would earn revenue from the bill and statement providers based on how many bills and statements we provide. We're in the early stages of really flushing out that full business model because there are obviously a number of different avenues and different ways you can take. And part of it is learning from our customers the best way to work with them to both engage them, as well as to have a long-term revenue stream from it. But I think it's fair to say that it would be more oriented towards a click model.

Chris Whitmore - *Deutsche Bank - Analyst*

So, if we think about the $0.05 to $0.10 of investment in Volly, is that going to be back-end loaded because I would imagine you'd need to do a lot of brand building around the Volly site to raise consumer awareness to drive the clicks to your site. Should we be thinking as that as an expense that will build from here, or are you at run rate now?

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

No, I would say that it's fair to say that it's going to be a little bit more back-end loaded. I don't want to overemphasize that, but there certainly would be more of an expense when you get to a launch phase. Part of the model we're looking at is how we work with our partners to market this into a user base to be able to get the greatest take rate on it, and the greatest consumer adoption.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay, and just to change gears a little bit here, I wanted to get a sense as to what the renewal cycle or your lease cycles look like over the next two to three quarters, and come back to the revenue guidance one more time. Does the lease cycle or the renewal cycle give you some confidence around the acceleration you anticipate in the business? How much of the acceleration is built around the core mail meter business, and is that driven by a more favorable renewal cycle?

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

I would say the overall business model is really a combination of a number of businesses performing. We have the Mail Services business, which is coming off the year that it was challenged by the fire in Dallas. We have the Software business, which we believe has good growth opportunities, and showed positive growth in the first quarter. And then we have opportunities certainly in the Global Mailing business, in terms of introducing Connect+ into new markets like Germany and France.

And in the US, I would say it's more around the actions we're taking to drive more new-equipment placements versus lease extensions, broadening of our channel opportunities, and looking at bringing some new products to market like the low-end mailing product, as well as continuing to drive penetration in our SendSuite Live shipping product.

Chris Whitmore - *Deutsche Bank - Analyst*

And can you give us some color as to what you expect on the recurring elements? Presumably those would have to improve from a rate of change standpoint pretty dramatically from here to get to down 2%.

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

As you know, those don't move quickly because you're working off a fairly large base. We've been seeing improvement in the rental and financing run rates in both Europe and the US, if you adjust for the one-time adjustment I had mentioned. That will be a slow progression. We would expect that the first thing that would drive it is equipment sales, software sales, those types of things are going to have more of an immediate impact on the revenue growth rate.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay, and last one for me. I wanted to ask about the materiality of the Facebook deal. Was that a similar type of licensing deal? Is that a one-time access to technology deal, or is there a recurring element and how material is it?

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

It's a good-size software deal in terms of the types of deals that we get. It does have a recurring element to it. We're not really able to talk about a lot of the details beyond that.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay, thanks very much.

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

Thank you.

Operator

Hale Holden, Barclays.

Hale Holden - *Barclays Capital - Analyst*

Hi, I had just three quick ones. Can you tell us the exact term debt that you took out, or that you bought back in?

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

It was actually $150 million of debt related to our international operations; it was actually Canadian/NovaScotia related debt.

Hale Holden - *Barclays Capital - Analyst*

And I guess my second question is -- the decision to buy that debt back in versus repurchasing your shares at a 9% gross yield, just wondering how that math worked?

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

Sure, that debt was maturing this year, so, we decided to just fund it with commercial paper in the first quarter.

Hale Holden - *Barclays Capital - Analyst*

Okay, and then my last question is on Volly -- can you highlight how you're going to get consumers to -- or convince consumers to use the service? Most of the studies we've seen suggest that consumers only trust banks or well-branded financial institutions with money decisions, and Pitney Bowes doesn't really have a commercial consumer brand, and Volly certainly doesn't have a consumer brand, so I was wondering how you attract critical mass to it?

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

Sure. The key driver is the brands who are providing the bills and statements, and encouraging consumers to participate. And we felt it's very important that those brands play a part in validating Volly with the customers, with their consumers, and encourage them because there's a value proposition both for them, as well as for the consumers themselves to have a point of aggregation of their bills, statements and other account information.

Hale Holden - *Barclays Capital - Analyst*

I mean, is there any chance you could get the billers to start charging for bills in order to force people to go to Volly, because otherwise it looks like there are a lot of mobile wallets getting launched into the market. My understanding of Volly isn't a mobile wallet in a traditional sense.

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

A lot of what the bill pay site or bank sites are about is payment. And what we're really about here is the presentment component of that -- the storage, the management of it, along with the facilitation of payment. So, many different billers have tried different ways of encouraging, penalizing consumers and that. The most successful is when it's a good experience. And part of the reason consumers don't adopt presentment as much as they do payment, is the fact that it splinters the experience into many different requirements for the consumer to go to different places. The concept behind Volly is to aggregate that, integrate it, and make it easy with single sign-on to manage multiple bills and statements.

Hale Holden - *Barclays Capital - Analyst*

Okay. And then my final question is -- can you talk about the quarterly cadence of renewals, and where we are in lease renewals off your 2010 and 2011 base?

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

Yes, we are about 25% lower in lease renewals in the first quarter this year than we were last year. We would expect, based on the marketing programs that we have in place, that on a year-over-year basis, we would continue to see lease extensions be a smaller part of our overall placements.

Hale Holden - *Barclays Capital - Analyst*

Great. Thank you.

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

Thank you.

Operator

[Steve Seer], (inaudible) Management.

Unidentified Participant - - *Analyst*

Yes, I was wondering -- do you envision any more pension contributions this year?

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

I would not expect that, no.

Unidentified Participant - - *Analyst*

Okay, can you tell us how much of the $950 million of cash at March 31 was held overseas versus domestically?

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

Yes, I believe it's about $550 million of the cash is overseas.

Unidentified Participant - - *Analyst*

And then, related to that, I'm just curious how much of a consideration the location of the cash is, in terms of your debt refinancing considerations for the debt that's due later this year?

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

Obviously, there's a cost associated with repatriating the cash. We have some domestic cash on hand. We have access to commercial paper, and obviously, we could go to the debt markets as well, so, we're looking at the combination of those three things to judge the best solution for the maturing debt.

Unidentified Participant - - *Analyst*

Okay, thank you.

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

Thank you.

Operator

[Eric Haas, FO Capital].

Eric Haas - *FO Capital - Analyst*

Yes, hi. Question for you on the insurance receipts that you had in the first quarter; I think you called that out in the Mail Services segment. Just wondering if you could quantify how much that was?

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

It was about $7 million in the quarter.

Eric Haas - *FO Capital - Analyst*

Okay, and so, is that included in your adjusted EBIT figure of $2.11, I think it was?

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

Yes.

Eric Haas - *FO Capital - Analyst*

Okay, so, I assume that's just the last of the proceeds that we'll see from that, so that's one-time and done on a go-forward basis?

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

We have actually received funds over the course of the years. There may be some small remaining amount outstanding; obviously, we're working with the insurance companies to finalize that.

Eric Haas - *FO Capital - Analyst*

Okay, and the $12 million lease sales up in Canada, that gain, is that included in that adjusted EBIT? And if so, what segment does that fall under?

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

No, it's not included.

Eric Haas - *FO Capital - Analyst*

Okay, and then, on the free cash flow guidance, have you broken out how that's expected to break down between domestic and international?

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

No, we generally don't break that out, but it's going to be driven more by the domestic side.

Eric Haas - *FO Capital - Analyst*

Okay, that's all I had, thank you.

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

Okay, thank you.

Operator

Chris Orski, Bow Street.

Chris Orski - *Bow Street, LLC. - Analyst*

Hi, guys. Just a quick question. Actually I just missed the figure. What was the one-time -- or the reimbursement in the Mail Services segment this quarter?

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

It was about $7 million. Obviously, we've incurred costs since last February all along, related to the fire itself, the clean up, the rebuild and replacement of our facility, and that's part of the proceeds that we've received over the last year or so.

Chris Orski - *Bow Street, LLC. - Analyst*

Got it, and then, just thinking about the bridge year-over-year. Do you have a breakdown of how much of the growth in EBIT was related to just growth in the business versus cost cuts?

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

We generally don't break that out in that way.

Chris Orski - *Bow Street, LLC. - Analyst*

Okay, all right, thank you.

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

Thank you.

Operator

(Operator Instructions)

Ben Glaze, Apollo.

Ben Glaze - *Apollo Global Management - Analyst*

I just wanted to follow-up on Hale's question. Is it possible to help us think about -- if we look at your meter installed base today, what percentage of the current installed base has been extended over the past two years versus new equipment, because I assume both your contracts came up over the last two years. Just trying to get a good sense of that, and if you can help us anymore on the cadence of when the extensions actually happened, that would be great.

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

Sure. Over the last couple of years, our lease extensions have represented generally in the neighborhood of 20% to 25% of the placements. We've, as I said, in the first quarter, seen that ratio come down by about a quarter.

Ben Glaze - *Apollo Global Management - Analyst*

Okay, so, if we look at equipment sales, what percentage of equipment sales over the last, I guess, eight quarters have been running through the small business segment? Is there a way to -- ?

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

We don't break that out specifically. The only two items in equipment sales would be Production Mail and the Global Small Business. The global small business piece is the lion's share of the equipment sales number.

Ben Glaze - *Apollo Global Management - Analyst*

Okay, is it more than 75%, or about 75%?

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

We would have to double check on that.

Ben Glaze - *Apollo Global Management - Analyst*

Thanks.

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

Okay.

Operator

Ananda Baruah, Brean Murray.

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

Thanks, guys. Mike, just wanted to get a clarification. Just by my calcs, it looks like the equipment sales margins went up this quarter to 56%, I believe -- gross margins 56% from, I think, 53%. Is that correct? And if so, can you just walk through the reasons? Was that the lease extension, because the lease extensions, or fewer lease extensions help there?

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

Yes, your calculation is correct, and it's a combination of the mix of business in the Mailing business relative to the Production Mail business, as well as overall improvement in the margins given the focus on costs that we've had in the business.

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

So, from a trend perspective, is that something, it sounds like that's something we should at least expect to hold at these levels. If you get the production -- ?

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

Yes, keep in mind, if you get a significant pick-up in the Production Mail, that will have an impact on that margin to some extent. Our focus is on a business-by-business basis. In this case, it's a combination of improved margin in the Mailing business, and the mix between Production and Mailing.

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

Got it, and then, just the last one for me. I calc'd the non-GAAP tax rate is about 28%. Is that in the ballpark? And then, should we think of the non-GAAP tax rate as being 30% going forward?

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

We looked at the tax rate as being about 33%. If you take the tax benefit and the impact of the leverage lease out, so, right in line with our annual guidance range.

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

Okay, got it. Thank you.

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

Okay.

Operator

At this time, there are no questions.

Murray Martin - *Pitney Bowes Inc. - Chairman, President and CEO*

Thank you. The first quarter was really characterized by near-term and long-term progress. We made near-term progress as some parts of our business stabilized. We grew revenue on a constant-currency basis in four of seven business segments. We increased our EBIT margins in four of seven business segments, and grew our overall EBIT. SMB business had improvements in equipment sales trends and customer retention rates.

We saw several key milestones that marked our progress for longer-term growth and value creation, including deals like the Facebook multi-year agreement, the partnership with Australia Post. And in the US, with Volly, we continue to sign up large third-party mailers, and are on track for our consumer launch in the fourth quarter. As we also mentioned, we will launch a new cloud-based metering solution for small business, and are partnering with others to expand our eCommerce capabilities. So, we're focusing on executing our strategies, and expanding our productivity initiatives. We are, therefore, excited about the opportunities ahead. Thank you for your participation today, and we look forward to talking to you in the near future.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 7.00 p.m. today through Midnight on May 25. You may access the AT&T teleconference replay system at any time by dialing 320-365-3844, and entering the access code 243744. That number again is 320-365-3844, access code 243744. That does conclude our conference for today. Thank you for your participation, and for using AT&T Executive Teleconference. You may now disconnect.