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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes' Second Quarter 2021 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. Marc Lautenbach, President and Chief Executive Officer; Ms. Ana Maria Chadwick, Executive Vice President and Chief Financial Officer; and Mr. Adam David, Vice President, Investor Relations and Financial Planning. Mr. David will now begin the call with a safe harbor overview.

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

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our earnings press release, our 2020 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations. Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments. Also, for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations' website.

Additionally, we have provided slides that summarize many of the points we will discuss during the call. These slides can also be found on our Investor Relations' website. Now our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

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

Thank you, Adam, and thank you, everyone, for joining today's call. We delivered a solid quarter and first half of the year and continue to make progress against our overall objectives. Every business grew revenue and improved EBIT from prior year. Overall, revenue at constant currency grew 6% and EBIT grew 16%.

SendTech and Presort both grew revenue, albeit as expected, given the easier compare, and both businesses grew EBIT. Presort continues to see a nice recovery in volumes from pandemic levels and EBIT margins remain in the double-digit range, moving back toward the long-term model. SendTech's revenue growth was led by a strong performance in our SendPro product family in addition to continued double-digit growth in our SaaS-based shipping portfolio.

The business recorded its third consecutive quarter of year-over-year EBIT growth and continues to maintain its EBIT margin above 30%. Global e-commerce grew revenue this quarter despite a tough prior year comparison, and importantly, also improved quarter-to-quarter. EBITDA turned positive in the quarter, and both EBIT and EBITDA improved meaningfully over prior year and prior quarter. The path to profitability for e-commerce is an integrated approach around talent, training, automation and execution.

We've made several important additions to our team and the new management talent, along with the maturation of our existing workforce are clearly yielding results. We continue to work to optimize our shipping lanes and continue to focus our investments toward more automation. We continue to make good progress with substantial opportunity still in front of us.

Entering the second half of 2021, I like where we sit. The revenue comparisons will get more difficult in the second half of the year compared to the first half, but this quarter was a glimpse into what the business can look like when we hit on all cylinders and that improved profitable revenue growth is within our grasp. Over the course of the last year or so, I have said that Pitney Bowes will come out of this pandemic, a bigger and better company. And while we are not out of the woods with the pandemic, we're certainly on the trajectory of being a bigger company, and we are working every day at becoming a better company. With that, let me turn it over to Ana.

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

Thank you, Marc. Our second quarter results reflect solid momentum across all of our businesses. We continue to make good progress and are set up well for the second half of the year. Unless otherwise noted, I will talk to revenue comparison on a constant currency basis and other items such as EBIT, EBITDA, EPS and cash flow on an adjusted basis. Revenue was $899 million and grew 6% over prior year. Adjusted EPS was $0.11 and included a $0.03 tax benefit in the quarter.

Free cash flow was $87 million, and cash from operations was $79 million, which was a solid performance in the quarter and in line with our expectations. Although down from prior year, it is important to remember that last year included $66 million contribution from the decline in our finance receivables, which was largely COVID related. This was an item that we identified as a headwind to our free cash flow comparison earlier this year. During the quarter, we paid $9 million in dividends and made $5 million in restructuring payments. We spent $40 million in CapEx as we continue to invest in our network and productivity initiatives across the business.

We ended the quarter with $814 million in cash and short-term investments. Total debt was $2.4 billion, which is down $289 million. When you take our finance receivables and cash into account, our implied operating debt is $567 million.

Let me turn to the P&L. Starting with revenue versus prior year. Equipment sales grew 46%. Supplies grew 14% and business services grew 6%. We have decline in support services of 1%; rentals of 2%; and financing of 16%. Gross profit of $301 million improved about $17 million over prior year on growth across all segments.

Gross margin was 33%, which was slightly down from the same period last year, but an improvement from the last 2 quarters. SG&A was $236 million and approximately $3 million higher than prior year. SG&A was 26% of revenue, which was nearly a 2-point improvement over prior year. Within SG&A, corporate expenses were $56 million, which was up about $7 million from prior year, largely due to higher employee variable related costs. R&D was $11 million or 1% of revenue, which was up approximately $4 million from prior year.

During the quarter, we received the remaining insurance proceeds of $3 million for the Ryuk Ransomware attack. EBITDA was $96 million, an increase of $6 million over prior year, and EBITDA margin was 11%, which was flat to prior year.

EBIT was $56 million, an increase of $8 million over prior year, and EBIT margin was 6%, which was a slight increase over prior year. Interest expense, including finance interest was $36 million. Our tax provision was a benefit of about $300,000 and includes a benefit related to a U.K. tax legislation change, which also contributed about $0.03 to EPS in the quarter. Shares outstanding were approximately 179 million.

Let me now turn to each segment's performance. It is important to note that the year-over-year comparison includes the impact of COVID. Prior year results saw a positive impact on e-commerce revenue and an adverse impact on SendTech and Presort. As such, I will also provide growth rates from 2019 to 2021 for the larger transactional parts of our business.

Within e-commerce, revenue grew 3% to $418 million and also grew from first quarter levels. The revenue growth over prior year was driven by our cross-border services and partially offset by lower domestic parcel and digital services. Domestic parcel volumes were $44 million in the quarter. Compared to the second quarter of 2019, e-commerce revenue grew 48%.

Demand for our services continues to be strong as new business signings accelerated from the first quarter as we're getting merchants onboarded for peak season while balancing demand from current clients. We also continue to have success with bundling our services which now represents close to 50% of all new business. EBITDA for the quarter was $8 million. EBIT was a loss of $11 million. Both EBIT and EBITDA were meaningful improvements from prior year. We also made significant progress sequentially where second quarter's EBIT margins improved nearly 400 basis points as compared to first quarter, as we were able to improve our productivity and work through some of the residual impact from last year's peak that we saw earlier in the first quarter.

We continue to work to improve service levels and make progress against our productivity initiatives within our domestic parcel services. While still dealing with industry-wide concerns around high transportation costs and a competitive labor market. We made progress on several unit economics as compared to the first quarter, with the greatest being around labor and transportation cost per piece. We saw a reduction in our labor cost per piece in part due to the contribution of our new management talent, along with the maturation of our existing workforce.

Parcels processed per hour continued to improve from first quarter levels. Transportation cost per piece also improved versus prior quarter as we continue to better optimize our shipping lanes. Our improvement in execution, coupled with better network balancing are certainly yielding results. We continue to invest in automation, including high-end sorters in our larger facilities and sort-to-light automation in our midsized facilities.

We also announced our partnership with Ambi Robotics last month, which we will be rolling out across our network over the next few years. These initiatives take time to integrate, train our employees and produce results. And while we're seeing some early benefits, we expect to yield additional benefits during the upcoming peak season.

Also, as mentioned last quarter, we are in the process of opening 2 new sites and upgrading another. We expect to have this completed prior to the peak season, and it will allow us to handle volumes more efficiently. Ultimately, we expect transportation and labor productivity, along with optimizing our final mile costs to be critical drivers in attaining our long-term e-commerce margins.

And as Marc mentioned, we have made some important additions to our e-commerce management team in order to execute this plan. It is an exciting time, and our e-commerce business is moving in the right direction with substantial opportunities still in front of us.

Our Presort Services and SendTech businesses both turned in solid performances, which were in line with our expectations. Within Presort, revenue was $135 million and grew 14% compared to the second quarter of 2019, Presort revenue grew 5%. Average daily volumes grew 10% over prior year, largely driven by growth in first-class volumes of 4% and Marketing Mail volumes of 39%.

EBITDA was $23 million and EBITDA margin was 17%. EBIT was $16 million and EBIT margin was 12%. EBIT and EBITDA dollars improved from prior year due to revenue growth and margin expansion. We remained focused on our productivity initiatives, having improved pieces fed per labor hour by 3%, resulting in 60,000 less processing hours versus prior year. Within SendTech, revenue was $346 million and grew 6%.

We continue to differentiate ourselves in the market with a wide range of end-to-end mailing and shipping offerings that are attractive to businesses ranging from large enterprises to small offices. SendTech's SaaS-based shipping products grew at a low double-digit rate over prior year to $31 million this quarter. The number of labels printed through our shipping offering grew over 30% and paid subscriptions grew about 70% over prior year. Additionally, shipping volumes that our U.S. clients finance grew nearly 70% over prior year.

Our end-to-end value proposition continues to resonate with clients as they adopt and use these new offerings, which bring value to their businesses. Equipment sales grew 46% over prior year. Compared to the second quarter 2019, equipment sales grew 1%, which is an important metric as this is a key indicator for future streams in the traditional side of the SendTech business. This also points to how our new sending products are resonating with clients and helping to strengthen our portfolio. We continue to see strong placement of our SendPro C and mailstation multipurpose devices. Our international operations also saw strong equipment sales growth, and we continue to roll out new products in these markets.

Through the quarter, we, like many others, experienced some transportation challenges related to our supply chain. We are proactively managing our inventory and are able to place a significant level of new equipment despite those challenges.

Looking ahead at the second half of the year, we continue to closely monitor the semiconductor industry and potential supply shortage concerns. While it is still a bit too early to tell, we would expect the impacts, if any, to be more pronounced in the fourth quarter. We will look to mitigate any potential supply shortages by working closely with our suppliers and repositioning our solutions with our clients as necessary. EBITDA was $115 million and EBITDA margin was 33%. EBIT was $107 million and EBIT margin was 31%. EBIT and EBITDA dollars improved from prior year and was the third consecutive quarter of improvement for both metrics.

Let me now turn to our full year outlook, which is in line with what we have previously communicated. As we all know, there is still a level of uncertainty in the macro environment, particularly as new COVID variants continue to ramp up and concerns around supply chain remain, and we will continue to monitor any potential impacts closely. We still expect annual revenue at constant currency to grow over prior year in the low to mid-single-digit range. We still expect adjusted EPS to grow over prior year and more specifically, to be in the $0.35 to $0.42 range.

We still expect free cash flow to be lower than prior year due to items that benefited 2020 and are not expected to continue at the same level this year. Prior year included a lower level of CapEx and finance receivables and higher customer deposits. We also expect our tax rate in the second half to be higher and return to more normal levels. Looking at the timing, we expect third quarter revenue to be in line with second quarter and the fourth quarter to be larger than the third, given a strong holiday peak season. Taking the midpoint of our adjusted EPS guidance into consideration, we currently expect our third quarter to represent nearly 20% of our full year attainment.

Let me conclude on this. In the beginning of the year, we said that we expected revenue and adjusted EPS to grow, and we remain committed to this outlook. Each segment has delivered a solid performance through the first half of the year, improving revenue, EBITDA and EBIT from prior year. We continue to generate good free cash flow and remain focused on maintaining a strong balance sheet. We also continue to make measurable progress and are confident in our ability to achieve our financial objectives.

Thank you. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from the line of Shannon Cross with Cross Research.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

I was just wondering how we should think about run rate for volume during the quarter, and if you're able to meet domestic fulfillment. So if we think about it, is about 40 million parcels, a good run rate? And then how should we think about -- that's, sorry, for nonpeak post pandemic? And then how should we think about specifically what you're doing to ramp up for the fourth quarter?

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

Sure. Thanks, Shannon. So I think it's easier to get lost in a sea of numbers. There are so many different dynamics and currents running through them, the marketplace. So if I might, let me, kind of, start with a macro view and then go to a micro view. So if you think about this from a macro perspective, e-commerce purchases as a percent of total retail, last year went from roughly 16% to 26%. So over a 50% increase. Now subsequently, that number has regressed a little bit, but it's still 24%, 25%. So slightly below last year, but substantially above pre-COVID.

Within that overall dynamic, there's also quarter-to-quarter dynamics. So if you think about last year in the world of COVID, first quarter, we got 2 months in before the virus hit. Second quarter was, kind of, the tsunami. And not only did you have many customers moving to e-commerce and the internet for purchasing, but you had retail outlets that were essentially closed. So within the quarter-to-quarter dynamics last year, you had a particularly strong set of dynamics in the second quarter and to a degree that moderated a touch but lasted throughout the year. So second quarter was kind of -- for all kinds of different reasons, an unusual quarter.

From a micro perspective -- I should make one other comment from a macro perspective. All of this was against an industry capacity that was really oriented towards pre-COVID levels. So think of an industry that was -- had capacity to accommodate the 16% or 17% with this influx of demand.

From a micro perspective, Pitney Bowes is a challenger. We tried to say yes to as many customers and as much volume as we could, partially because we saw it as an opportunity to get to scale, partially because we are a customer-driven company, and we wanted to help out as many clients. And candidly, many clients just didn't have choices next year as some of the other participants in the industry shut down.

So I would say, in retrospect, we probably took a little bit more volume than we could handle well. And within that, we probably took some parcels and some particular lanes that, in retrospect, we just couldn't accommodate as much as we wanted to. So as we go forward, we are very focused on handling the volume that we think we can do exceptionally well. So that limits you to certain lanes where we've got capacity as the industry continues to be capacity constrained and, candidly, certain size parcels.

So our sweet spot within the marketplace is parcels that are 1 pound-ish slightly above, slightly below. So within that, as you said, we saw volume around 40 million to 45 million parcels in the second quarter, we suspect that will be probably slightly higher in the third quarter as clients begin to prepare for peak and then a fourth quarter that will be on top of that, perhaps slightly below last year. But our focus is on what we can do well, what we can do with a high service level to a client and importantly, what we can do profitably.

One of the things that happened last year is we got so much volume all at once, we had to throw a lot more cost at it both from a labor and transportation perspective. We're clearly going to try to accommodate as many clients as we can again this year, but we're going to do it in a way that we can have the highest commitment to service levels, at the same time, do it in a way that's economical and profitable to us.

So hopefully -- I know that's a long-winded answer, but I think it's important to, kind of, understand the overall dynamics.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***

No, I think that was really helpful. I guess one question -- or my follow-up question is just, how do we think about your opportunity to grow, and this is over a longer-term period of time. Is it incremental customers that are around that 1 pound level? Or will you develop your facilities such that you can handle a wider variety of parcels? I'm just trying to think about how you think about your CapEx investment and what you do.

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

That's a good question. So if you think about, kind of, going forward, so you had this, kind of, onetime step up with a slight digression, I suspect as you get into 2022, the out years, kind of, what you're thinking about for sustained growth. It goes back to the 10% to 15% growth that the market was clipping along that. In terms of how we're thinking about it, the gating factor on size of parcel isn't as much your network footprint as it is the tooling inside of the warehouses. So there's different tooling that accommodates different sized parcels. So yes, we will continue to build out our footprint. We've got a couple of more sites that we'll bring online here in the second half of the year. But we're going to tool them for what we think our sweet spot in the marketplace is. So I'd say, think about the 10% to 15% long term, we will continue to build out the network.

I think the build out of the network -- and we're looking at different scenarios candidly, right now, do you accelerate the build-out and finish it? Or do you do it over a more staged process and [meet with] that out. But I think the overall capital spending for the quarter was $40 million. That was a reversion back to what it was. That's how we're thinking about it for the moment. If we change that and we decide that we're going to accelerate, we will. But the total buildout of the network is in the context of our balance sheet, certainly very manageable.

Operator

And we do have a question from the line of Allen Klee with Maxim Group.

Allen Robert Klee ***Maxim Group LLC, Research Division - MD & Senior Equity Research Analyst***

Two questions. One is the adding of the 2 new facilities for e-commerce plus optimizing another one, what percent does that increase your capacity in domestic parcel? And then second, you highlighted cross-border as an area that attributed to your global e-commerce results. Could you just go into a little bit of what's behind that?

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

Yes. I'm going to defer on the first question and Adam will get back to you in terms of how much capacity that increased. I don't think it materially increased the capacity. It was more a modernization of the existing facilities. And as we -- as you think about the economics of that business, the deeper you can ingest into the postal network and the closer you are to be able to ingest deeper into the postal network, the better economics that you have. So it was more a fine-tuning of the footprint to improve our efficiency and our costs as opposed to something that dramatically improved our increased capacity. I'm sorry, what was your second question, Allen?

Allen Robert Klee ***Maxim Group LLC, Research Division - MD & Senior Equity Research Analyst***

Cross-border?

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

Cross-border, yes. So cross-border is a combination of a couple of things. First of all, exchange rates matter a lot in cross-borders. So when you've got a relatively strong dollar to other currencies, that helps. We continue to invest in our cross-border platforms. We've got a couple of large clients that continue to give us more and more demand, particularly from the United States into Canada. And interesting enough, we're able to protect pricing in that marketplace as well. So it's -- you've got some macro things that are going for you with currencies, and we've got a very good capability, particularly U.S. to Canada, which is attractive to some of the larger clients with meaningful scale.

Operator

And we do have a question from the line of Kartik Mehta with Northcoast Research.

Alex Neumann ***Northcoast Research - Equity Research Associate***

This is Alex on for Kartik. Our first question had to do with just the profitability of Global Ecommerce. And within this elevated demand environment, can you just talk about some of the factors that increased profitability for the quarter? Was it the in-source of new lanes, better use of the spot market and variable labor? Just comment on some of those factors that improved this quarter?

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

I'll let Ana, take a crack at that and I'll add some color.

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

Sure. So we saw improvement in 2 key variables. I mean we saw with the changes in management and labor strategies that we have been implementing in combination with the automation. We saw improvement in parcels per hour. So our labor productivity is improving. And the second factor that we also saw improvement was around our transportation. So we're continuing the strategy that we have mentioned about in-sourcing lanes and making sure we optimize the capacity and -- of the trucks better. So those 2 factors, I would say, were at the top. And of course, we continue to work our postage and ensure we deliver at the best penetration levels that we can in the USPS. So I would put them in that order.

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

I think Ana said it quite well. I would also add, so if you think about pricing, so pricing quarter-to-quarter, importantly, stayed pretty steady. So as the industry continues to be capacity constrained, pricing is holding. We expect pricing will actually go up in the second half of the year as there's more volume and more demand. As Ana said, labor was an improvement quarter-to-quarter, pretty substantial improvement. But that's not really much of a product of the automation, that's just the labor model maturing.

So if you think about what our labor strategy had been -- or what it was when we bought Newgistics a bit ago, it was all a temporary labor force, and remained a temporary labor force well into last year. That's problematic because you just don't get enough continuity in the specific role. So as we've moved to a more permanent workforce, you can see the productivity improve. So we're now at -- I think, 40% of the workforce is permanent. We want to get that a little bit higher which allow you to flex up and down with volume. So I say that because it demonstrates and reveals the power of just having a more mature model.

And also importantly, the benefits of automation are still in front of us. So we added some automation in the quarter and we like what we're seeing. I would consider those as, kind of, test and learn and sandbox type initiatives. So it makes you very excited about that. Transportation improved good quarter-to-quarter. It's still well above last year. So if you look at the transportation unit cost from this year to last, it's still way high. So we still have an opportunity in front of us. You saw some benefit from the redesign of the network. You saw some benefit from being able to in-source more of our own trucks. But again, there's lots of opportunity in both labor and transportation. And there is opportunity in our postal costs, which is the biggest single line item, but that's a function of being able to ingest deeper into the postal network.

And I would say the other thing we -- I mentioned in my remarks and Ana mentioned in her remarks. I mean if you look at the 16 sites that we have now, we have 16 new leaders over the last 12 months. So we have a very experienced team right now. And I would say, not just experienced in the world of warehousing and logistics but experienced in the world of postal ingestion, which is its own little world. And then on top of those 16 leaders, we -- first of all, I would mentioned Nick Smith, who was really the architect of much of our strategy around Global E-commerce, has moved to a product in strategy world, which is terrific. It gives him some more time to think about how we go forward.

But to the team, we've also added a new person running in our 16 centers from Amazon as well as an individual from C.H. Robbins running our transportation. So what you're looking at now, starting with Nick and team, led by Gregg Zegras, is a very experienced team that's been there and done that. And it's fascinating to see, as you put these new leaders in place, how quickly they're able to do the basic blocking and tackling and you see improvements.

Alex Neumann ***Northcoast Research - Equity Research Associate***

Okay. Great. And then also in regards to the growth that you saw within the sales. I know part of that growth was just from the comparison of last year. But was there anything major that was also contributing to that growth for this quarter? Was that the higher product sales with the SendPro product family?

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

Yes, you're absolutely right. Part of that was, of course, the easy comparison that was mentioned, but we're seeing great attraction in the market from the SendPro family, both the Mailstation and the SendPro C and the shipping capabilities that tags along. So we're seeing that, and we started, also, some international rollouts of the product. So...

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

Again, it's easy to get lost in the year-to-year dynamics, and there's so much noise in the numbers. But honest comment about growing 1% versus 2019. You think about that, that's a meaningful accomplishment in the context of a market -- a mail market that's still declining. And if you go back to 2019, that takes out all of the comparison issues and it leads you back to precisely the point that automate is it's new product innovation. If you look at the new products the SendTech team has introduced, they're just doing great. And they're doing great domestically, and we're starting to roll them out internationally. And if you look at their overall revenue that's driven by new products, it's meaningful. So the innovation pipeline is really starting to hit the ball, and hit the ball hard.

Operator

And we do have a question from the line of Anthony Lebiedzinski with Sidoti & Company.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

First, on the Global Ecommerce side. So nice to see that you will be able to get that to be EBITDA positive for the full year. In order to get that business to be EBIT positive, is that more of a function of gaining more productivity or more scale? Can you just comment on your high-level thoughts there?

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

Yes. So first of all, I'm going to take a small victory lap that we're actually EBITDA positive in the first half by a couple of hundred thousand dollars. So we expect that to continue in the second half as we get more efficient and more productive and more volume. In terms of your broader question of the path to profitability, sustained profitability towards our long-term models for Global E-commerce. I'm going to caveat this upfront in that, if you would have asked me that question 18 months ago, I would have given you an answer of how we get to the long-term model. the world's changed a lot in the last 18 months, not the least of which is pricing has gone up by 20%, 25%; unit cost on transportation has gone up substantially. So we're redoing the long-term model.

But with that caveat of how we think about the long term, if you look at the path to the long-term margins, it will principally be driven by labor and transportation. So labor and transportation provide 60% of the total. If you think about the postal cost, that's another couple of points. If you think about the benefit -- the mix between -- mix scale and pricing, that's a slight positive. But transportation and labor are the principal cost then also warehousing gives you a couple of points as well.

So labor and transportation are the things to keep the eye on. And I don't think that -- I mean we're going to fine-tune the long-term model. I don't think that will change that much.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

Got it. Okay. That's very helpful. And then switching over to the SendTech business. So you posted your third consecutive quarter of improved EBIT. How sustainable is that? What are your thoughts, there? .

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

Well, we think it's the right long-term thought. It's something that I wouldn't lead you to believe that that's something you would expect in 2022. But as we think about the long-term model, we truly believe that, that business is positioned to be able to grow revenue and grow profit. It's just -- it's got to get the shipping business, and to a lesser degree, the financial services business of a little bit more scale.

So long term, yes. Short term, we might have a couple of quarters as we have getting our nose above water, medium term, we expect continued progress.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***

Got it. And just a follow-up on that, actually, in the set piece. So how much of your revenue is now coming from shipping?

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

Well, it's $31 million out of the total.

Operator

And we do have a question from the line of Ananda Baruah from Loop Capital.

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

Marc, just on the -- I guess, on sort of the e-commerce marketplace and your thoughts about it. And I guess -- or at least the company's position that it does, sort of, go back to being a 10% to 15% revenue growth business. With -- I guess, what are your thoughts on percentage of retail remaining online? And it sounds like -- so a couple of things. Is it stronger? Is retail online stronger now, maybe through company -- sort of, just purchasing online being still 24%, 25%. Is that higher than you thought it would be when we entered the year? And if it does stay elevated, meaningfully above the mid-teens level. Would that alter your thought process around the 10% to 15%? Or would it all be your thought process around long-term PItney? And then I have a couple of follow-ups.

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

Sure. So I would say there's been an evolution of thinking on percent of retail over the internet. When COVID first hit, that was the million-dollar question is how much of this volume sticks. I think shortly after -- shortly into the pandemic crisis, people became convinced that buying habits have changed substantially in a more permanent way. So yes, I think you can argue whether it's going to be 24%, 25%, 26%, where it settles out, but it's going to settle out well above where it was. I think it's pretty clear. And certainly, working from home over the last 16 months, it's been striking the number of deliveries that come to the door. I don't think that's ebbing at all.

I do think once it finds that new level, that 24%, 25%, 26%, then it's going to have a personality that's driven much more by retail and consumer trends. 10% or 15% is going to be well above what retail as a sector grows. So you'll continue to see that percentage increase. But I don't think -- it's not our expectation anyway that it's going to grow 20%, 30%, 40% in a sustained way. In terms of how that makes me think about the opportunity, I love this opportunity. It's an opportunity that's got strong secular growth. It's an opportunity that's got industry players that are responsible in terms of how they think about pricing and how they think about managing demand.

It's an industry that leverages our relationship with the post. It's an industry where we've got the right to win. If you think about -- you followed the company for a while, Presort is a postal ingestion model for mail. What our Global E-commerce businesses is, is a postal injection business for parcels. So we understand the space. We have the right to win. We've got all the right intellectual capital to be an important player here. And again, we write off the postal services scale. So we're able to participate in this marketplace without having to buy planes trains and automobiles. So I really like where we're situated now. It couldn't be a better opportunity for us.

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

And going back to the conversation you and Shannon were having, is there an opportunity to, sort, of change the tooling or add to the tooling in the warehouses and expand the TAM, I guess, at some point in the future that would make a difference to the business?

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

I don't feel compelled to have to expand the TAM, it's plenty big as is. So if you think about the addressable market in small parcels, we can grow substantially for a long, long period of time without having to focus on retooling our warehouses. So addressable opportunity is not the problem.

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

Okay. Awesome. I got 2 more quick ones. Given what you've seen so far in the marketplace this year, do you feel any different about, sort of, the leverage points in the E-commerce model, do you think you can get to some of them more quickly over time? And this maybe even doesn't take longer. I mean, I guess, sort of, what's your thought process 6 months into this year on the leverage points on Ecommerce over time?

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

Yes, I still think 2024 is the right thought for us in terms of getting to the long-term model as I look at what needs to get done and as we refine the volume a little bit, be more congruent with our capabilities and then letting the labor model and the transportation mature.

So we're -- as I said, we're updating the long-term plan now, and we'll review that with you sooner versus later. But right now, I think it's -- I still think the overall margin aspiration and time frame is correct. Some of the elements underneath that might be a little bit different. I mean, certainly, pricing -- I mean, well, we know they're different. Pricing is way different than what we thought 18 months ago as our transportation costs. So labor costs will kind of, I suspect, at a hourly worker that will go up, but we have such an important opportunity to automate that our focus is on how we bring any more reliable labor base that stays with us and add automation to that.

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

That's helpful. And then just quick housekeeping, this one would be for Ana. Can you -- Ana, can you quantify the benefit from the lower bad debt expense to the e-commerce bit?

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

Yes. So the benefit was around $7 million for the quarter.

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

Got it. And any context around if that -- sort of going forward, if that will continue or change in any way?

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

No. I mean we expect the levels that we have to be realistic. Of course, we have some seasonality, as you know, based on our billings and everything, but we feel pretty good with our customer base and the types of credit that we have in our receivables. So based on what we see into the future, we think the levels should maintain.

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

And to the extent -- so as a predictor of this which it is, DSO in that business is terrific. So I mean their cash conversion in that business is crazy good. DSO is at industry best levels.

Operator

And we do have a question from the line of Jeff Harlib with Barclays.

Jeffrey Alan Harlib ***Barclays Bank PLC, Research Division - MD***

Can you go into a little more detail about the semiconductor and supply shortages that you cited potentially in 4Q, in which products, in which businesses?

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

Yes. It's in SendTech, in our SendPro product line. So we chips from principally Asia. So it's the same chips that everyone else is buying for. We're buying for as well. We're pretty confident that we've seen our way through the third quarter, but you follow the space so you understand how dynamic that is and it presents some risk -- temporary risk to the fourth quarter. We see that risk as less than we did probably 30 days ago, but there's still a risk.

Jeffrey Alan Harlib ***Barclays Bank PLC, Research Division - MD***

Okay. And then in SendTech, can you just talk a little bit about the -- in terms of the SendPro refresh cycle, and you've seen very strong equipment sales. How much of your base do you see that rolling through? And when do you see that sort of maturing?

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

So we see it rolling through all of our base. If you think about that business, it's a lease business. So the normal rhythm is you have probably 20% to 25% of your products come up for renewal each year or trade up to a new technology. So it's rolling through a fairly predictable basis. I think there's a couple more years left. And certainly, most of the international opportunity is still in front of us.

Operator

And with no further questions in queue. I'll now turn the call back to Mr. Lautenbach for any additional remarks.

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

Terrific, thank you. And thank you for joining today's call. Early in the year, we said we were poised for improved profitable revenue growth. We characterized profitable revenue growth as the last chapter of a successful transformation. And we also said that Global E-commerce would be EBITDA profitable this year. And while this year isn't done, I like where we stand on profitable revenue growth, and I really like where Global E-commerce stands in terms of being EBITDA positive. So another data point in the second quarter, more work to do for sure. But I certainly like how we're situated as we get into the second half of the year. Thank you for your time, and we'll talk soon.

Operator

And ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Teleconference Services. You may now disconnect.