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TRANSCRIPT

Q2 2019 Pitney Bowes Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes' Second Quarter Earnings Conference Call. (Operator Instructions) Today's call is also being recorded.

If you have any objections, please discuss your lines at this time.

I would now like to introduce participants on today's conference call: Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President and Chief Financial Officer; and Mr. Adam David, Vice President Investor Relations,

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

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

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

More information about these risks and uncertainties can be found in our earnings press release, our 2018 Form 10-Q 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 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.

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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***
Good morning, and thank you for joining the call. Overall, we turned in a solid performance in the second quarter, making progress against our strategic initiatives and improving from the start of the year.

In particular, our Commerce Services top line performed very well and exited the quarter with good momentum. E-commerce's domestic parcel volumes through our network grew 42% in the second quarter to 35 million packages processed.

Additionally, SMB revenue performance improved sequentially and had good momentum heading into the third quarter.

At the end of May, we hosted Investor Day, at that time we laid out our long-term plan for continued top line growth and expansion of shareholder value.

I won't spend this morning rehashing the presentation however, there were several significant key messages that we delivered that I do want to reinforce and start providing a signpost, to which you can measure our progress.

The first is that we will continue to grow revenue and the growth rate will improve. In the second quarter, revenue grew 2% when adjusted for currency and the exit of direct operations in 6 smaller European markets, which we announced earlier this year.

The portfolio continues to shift to growth, particularly around shipping, which comprised 35% of our revenue this quarter.

The growth in shipping is largely attributable to our Commerce Services group, which contributed 48% of our overall revenue.

As a reminder, 2 years ago, Commerce Services comprised less than 30% of our portfolio. At this rate and pace, this segment is well positioned and in line with our long-term plan of being nearly 60% of our overall revenue.

Our second key message was around the path to profitability in the Global Ecommerce business. Lila Snyder, the President of our Commerce Services group, laid out the strategy, which was driven by continued growth and scalable volumes and operational efficiency.

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Global Ecommerce while not currently at optimum scale is over a $1 billion business that is growing close to 20% and is EBITDA positive today.

To be clear, we alone achieved the 42% domestic physical volume growth every quarter but anything above an average 25% will keep us on track to obtain optimal scale.

Our third message was that SMB would achieve flat or improved year-over-year EBIT or [in] 2021 by growing our shipping capabilities and third-party financing.

These initiatives are in addition to the work we've already done to stabilize our legacy portfolio and will take time to build with a high margin shipping and third-party financing streams that we're creating are incremental to our current model.

In the second quarter, SMB revenue declined 4% when adjusted for currency and the direct operations we exited earlier this year.

We continue to place our SendPro C now having over 95,000 units in the market, which means we have placed nearly 1/3 of our targeted existing client opportunity in North America in less than 2 years.

And we've begun to roll out the SendPro C internationally with the expectation that the product will be in all of the major markets within the next 9 months.

We're removing the complexity of mailing and shipping all within 1 device and that value is resonating with our SMB clients.

With the SendPro C, we're seeing a mid-single digit percent increase in client payment and longer lease terms versus the comparable legacy product, ultimately resulting in higher stream revenue and cash flow over time.

We're also focused on activating shipping applications, which is value-based service that comes with a product.

In the second quarter, the labels generate to our SMB products and solutions in the U.S. grew over 35% from the previous year.

Additionally in the second quarter, we started originating third-party financing to our new subsidiary Wheeler financial.

It's still early days however, we've seen a growing interest in the Wheeler Financial offering and a pipeline that has grown nearly 5x since the mid-March launch.

We have closed several deals and ultimately are helping our clients to be more successful in their

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business.

Within our legacy financial portfolio, our gross finance receivables grew in the second quarter when compared to the first quarter, which is an early sign of stabilization in the financing stream.

Clearly over time, we expect our legacy financing portfolio to decline in line with the market. However, we expect that rate of decline to moderate as we ramp up new third-party financing deals through Wheeler Financial.

The final key message, which Stan presented at Investor Day was that in aggregate, the key points I just discussed will drive continued growth in revenue and expand earnings and free cash flow over the long-term plan.

To summarize, I am pleased with the overall performance we turned out this quarter despite Software's disappointing results.

Revenue continues to grow on a comparable basis and earnings was in line with our expectations.

We are focused on delivering a solid second half of the year and the progress we have made this quarter sets us up to achieve our full year targets while also setting in the course for our long-term model.

Before I turn it over to Stan, let me spend a minute or so on our capital allocation strategy.

First and foremost, our strategy has and remains focused on delivering long-term value.

We have and will continue to invest in our portfolio ahead of the revenue, particularly around shipping and shipping related capabilities.

As our Company continues to evolve, we also continue to look at inorganic investments that give us scale and shipping, ensure we are realizing long-term value.

We continue to remain focused on the balance sheet. We know that we have several tranches of debt that are maturing over the next 2 years and it's our intention to opportunistically pay down debt and proactively refinance through the remainder.

Earlier this year, we announced that our Board of Directors authorized an additional $100 million share repurchase program, bringing our total authorization to approximately $120 million.

Through the first half of the year, we completed $100 million, having purchased a total of 17.4 million shares while also returning 18 million in dividends to our common shareholders.

With that, let me turn it over to Stan will take you through the details of the quarter and then we'll take

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your questions

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Thank you, Marc and good morning. Our second quarter performance was a substantial improvement from the start of the year and positions us well for the second half to achieve our full year targets.

Before I discuss the details of our second quarter, it's important to note a few items. As in the past, unless otherwise noted my statements going forward will be on a constant currency basis when talking about revenue comparisons and then on an adjusted basis when talking about earnings related items including cash flow for. Reconciliations of all non-GAAP to GAAP measures can be found on the financial statements posted with our earnings press release and on our Investor Relations website.

Also, as a reminder, results in both current and prior periods reflect the new lease accounting standard or ASC 842, which was implemented on January 1.

We have posted a file on our Investor Relations website with the updated recast financials.

Additionally, earlier in the year, we announced the sale of direct operations in 6 smaller European markets which did not qualify for discontinued operations treatment and as such prior year has not been recast.

Turning to our results. The portfolio continues to shift to higher growth markets. Commerce Services comprised 48% of revenue, which is the third consecutive quarter where it is the largest component of our overall revenue.

Our shipping related revenues made up 35% of total revenue in the quarter and that contribution continues to grow.

For the second quarter, revenue totaled $861 million, which was flat to prior year. When you take the market exits into consideration, revenue grew 2% from prior year.

Looking at revenue by group, Commerce Services grew 14%, SMB declined 4% when you exclude the impact of the market exits and Software declined 20% from the prior year.

Adjusted EPS was $0.21 for the quarter, GAAP EPS was $0.13, GAAP EPS includes charges of $0.04 related to discontinued operations, $0.03 restructuring and $0.01 for transaction costs.

Free cash flow was $13 million and GAAP cash from operations was $17 million. Compared to prior year, free cash flow was lower primarily due to the timing of working capital, in particular, accounts payable as well as lower net income.

This was partly offset by lower capital expenditures and the timing of reserve account deposits.

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Looking at free cash flow to date, our attainment as a percentage of the midpoint of our annual guidance is about 2 points lower than prior year. But as we have discussed as a portfolio increasingly moves to shipping, our second half and in particular the fourth quarter is becoming a larger contributor to the full year.

Looking at capital allocation. At the end of the quarter, we had $831 million in cash and short-term investments on our balance sheet. During the quarter, we used free cash flow to return $70 million to our shareholders. We repurchased nearly 12 million shares for $61 million and we paid $9 million in dividends to our common shareholders. Through the first half of the year, we completed $100 million of the new share repurchase authorization that we announced earlier in the year, purchasing a total of 17.4 million shares. This leaves $21 million of share repurchase authorization as of June 30.

Within the quarter, we also used cash for capital expenditures of $32 million. The reduction of $13 million in debt and restructuring payments of $6 million.

From a debt perspective, we ended the quarter with $3.2 billion in total debt, which was approximately $330 million lower than prior year.

Last quarter and at our Investor Day, I provided additional context over debt composition.

When you take the implied debt associated with our finance receivables of $1.1 billion, along with the $831 million of cash and short-term investments on the balance sheet into account, our implied net debt position on an operating company basis was about $1.3 billion at the end of the quarter.

We remain focused on the balance sheet. We have several tranches of debt that are maturing over the next 2 years and is our intention to opportunistically pay down debt and refinance the remainder.

We have well established relationships with our bank group and are structuring our proactive refinancing plan that reflects the diversity of funding sources and will leverage the capital markets as appropriate.

Looking at the P&L, starting with revenue performance by line item as compared to prior year. Business services revenue grew 14%, we had declines in rentals and financing revenues of 4%, support services and equipment sales of 7% and supplies at 15% and software 20%.

The market exits from earlier in the year impacted the year-to-year decline in several of the line items, resulting in a 2-point negative impact on the overall revenue comparison in the quarter.

Gross profit was $380 million with a margin of 44.2%. This is the decline of 4.6 points from prior year, which largely reflects the shifting mix of our portfolio.

SG&A was $276 million, which was the decline of $13 million from prior year.

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SG&A as a percent of revenue was 32.1%, which is over 1 point lower than prior year.

R&D expense was $23 million or 2.6% of revenue. Compared to prior year, R&D expense declined about $1 million and was relatively flat as a percent of revenue. EBIT was $83 million and EBIT margin was 9.6%. Compared to prior year, EBIT declined $29 million and EBIT margin declined by about 3 points, driven primarily by the gross profit decline.

Interest expense including financing interest expense was $39 million, which was $3 million lower than prior year as a result of the debt we paid down over the course of last year.

The provision for taxes on adjusted earnings was about $7 million. Our tax rate was 15.2%, which reflects the resolution of certain tax examinations in the quarter.

Average diluted weighted shares outstanding at the end of the quarter were $178 million, which is about 10 million shares lower than prior year as a result of our shares repurchased.

Let me now discuss the performance of each of our business segments this quarter.

Within our Commerce Services group, revenue was $410 million, which was growth of 14% over prior year. EBIT dollars and EBIT margin were essentially breakeven. EBITDA was $24 million and EBITDA margin was 6%. In Global Ecommerce, revenue was $282 million, which was growth of 19% over prior year and a 10 point improvement from first quarter's growth rate.

Within Global Ecommerce, our domestic parcel services delivered strong double-digit revenue growth as volumes continued to ramp up through our network.

We continue to grow volumes both through our services in China as well as our expanding domestic client base. The domestic parcel volume growth we saw this quarter exceeded expectations and continues to validate the strong value proposition and opportunity we have in this market.

As a result of the strong opportunity and growth we are seeing, we continued to expand our network by adding capacity.

Shipping solutions also delivered strong double-digit revenue growth as volumes through our shipping APIs and delivery services accelerated in the quarter. The segment's revenue growth was partly offset by a decline in cross-border though the year-to-year decline in our cross-border business has improved from prior quarters.

EBIT was a loss of $16 million and EBIT margin was a negative 6%, EBITDA was a positive $1 million and EBITDA margin was less than 1%.

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Margins in the quarter were impacted as we continue to invest in growth opportunities including marketing programs along with investments and operational excellence initiatives.

Additionally, margin was impacted by product environments. In the quarter, we saw a majority of revenue growth come from faster growing but lower margin services.

As we discussed last quarter, some of this is market-driven and some we can influence through actions to be more purposeful to drive mix and productivity.

We remain focused and excited about the long-term opportunity for us within this business.

We continue to make investments to drive long-term value and are seeing true operational signs where these investments are paying off. Our average domestic service delivery time is just under 3 business days and 47% of our domestic packages are delivered within 2 business days.

Investing in our network for speed and reliability is one of the keys to success of this business.

Scale and density will drive positive EBIT and our domestic physical volumes this quarter continued to improve growing 42% to 35 million packages processed.

Within Presort Services, last quarter, we spoke about initiatives we are taking to improve the trends in this business.

We are encouraged by the early signs of progress we saw in the second quarter. Revenue was $128 million, which was growth of 4% over prior year.

Compared to prior year, we grew total volumes processed by 2% to over 4.1 billion pieces in the quarter.

Volumes grew across all categories with a major drivers being marketing mail and flats. We also saw an improvement in our revenue per piece. As we've discussed, we are working with a third party to layer in productivity initiatives, and a new pricing strategy and we have started to see these actions yield results in the second quarter.

Revenue per piece and labor cost per unit have both improved from prior year and from prior quarter, which has resulted in an improved EBIT margin.

We expect further improvement throughout the second half of the year. EBIT was $15 million and EBIT margin was 12%, which was an improvement over both prior year and prior quarter.

EBITDA was $23 million and EBITDA margin was 18%.

Turning to our SMB group. Revenue was $378 million, which was a decline of 7% from prior year,

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excluding the impact of our market exits, revenue declined 4%. EBIT for the group was $125 million and EBIT margin was 33%. EBITDA was $137 million and EBITDA margin was 36%.

North America Mailing. Revenue was $303 million, which was a decline of 5% from prior year and an improvement in trend from prior quarter. Equipment sales declined 7% from prior year, however, we ended the quarter with a significantly higher backlog compared to prior year.

We continue to make good progress and bring our SendPro C to market.

Since launching, we have placed over 95,000 units and are on track and transitioning our client base into the new product.

Recurring revenue streams declined in line with the average of the last 4 quarters, which is an indicator of the portfolio stabilizing.

Within our legacy portfolio, our gross finance receivables grew in the second quarter while compared to the first quarter, which is an early sign of stabilization in the financing stream.

Business services revenue also grew, which is held by our new shipping capabilities. EBIT was $113 million and EBIT margin was 37%, which is an improvement from prior quarter and relatively flat to prior year despite higher costs associated with the tariffs related to China.

EBITDA was $123 million and EBITDA margin was 40%. EBIT and EBITDA margins benefited from lower expenses.

In International Mailing, revenue was $75 million, which was a decline of 15% from prior year. Excluding the impact of our market exits, revenue declined 3%, driven by lower supplies and service revenue, partially offset by higher rental revenue.

We experienced weakness in the U.K. and Germany, which was partially offset by growth in France.

EBIT was $12 million and EBIT margin was 16%, which is an improvement over prior year of about 2 points mostly due to lower expenses. EBITDA was $14 million and EBITDA margin was 19%.

Turning to Software Solutions, revenue was $72 million, which was a decline of 20% from prior year, driven by lower license revenue but partly offset by higher data subscription and SaaS revenue.

Prior year included several large renewal license deals, which impacted the revenue comparison this quarter.

In fact, the second quarter last year was the best performance we saw for a second quarter period in 5 years hence making it a tough compare.

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As we have talked about in the past, our software business tends to be lumpy due to the timing of new deals and renewals.

As we look into the second half, we enter with a pipeline of healthy deals. We are confident that this business will deliver full year revenue and EBIT in line with our expectations. EBIT was $2 million and EBIT margin was 3%, which was a decline of 17 points from prior year, mostly due to the decline in license revenue.

EBITDA was $4 million and EBITDA margin was 6%.

Let me now address our 2019 guidance. We are reaffirming our full year guidance and still expect revenue excluding the impacts of currency to grow in a range of 1% to 3% as compared to prior year.

Adjusted EPS to be in the range of $0.90 to $1.05, free cash flow to be in the range of $200 million to $250 million.

As we have communicated, the portfolio continues to shift to growth, specifically around shipping, making the second half of the year and in particular, the fourth quarter increasingly our largest revenue, earnings and cash generating quarter.

As a result, we expect third quarter adjusted EPS attainment to the full year to be approximately 1 point higher than the second quarter's attainment.

Finally, we believe the progress that we have made in the second quarter positions us to achieve our full year guidance.

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

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) The first question here will come from Shannon Cross from cross we sit.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***
I guess my first is just on cash flow. I understand it's a back end loaded year but can you talk maybe a bit about what the key drivers will be to able to meet your cash flow target for the year? And then I have a couple of follow-ups.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Sure. First as we looked at first quarter and second quarter, if you look at the first half in total and

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compare that on a year-to-year basis, our attainment is roughly 2 points below where it was last year. And if you look at the back half of the year and compare I think it will become clear that this is a doable target. Last year we did nearly $250 million of free cash flow in the back of of the year and to hit the midpoint of the guidance, we need to do about $180 million or so. But here are the drivers. First and foremost, net income as we expect to continue to improve as we go through the back half of the year and then the other big driver will be working capital. We've mentioned accounts payable specifically in the prepared remarks and I think if you think about the business shifting more and more to the back end of the year, that will make sense and accounts payable will also improve as you go through the back end of the year. Know we continue to work on things like DSO and cash recognition. So we're confident in our ability to deliver that free cash flow in the back half of the year.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***
Okay. And then when we think about your cash balance, how much cash do you need around the business? And basically, I'm wondering and you mentioned I think using some existing cash to pay down debt and clearly I assume you're going to try to roll the debt in various ways. So what do you need right now given the changes in your business model sort of from an inner quarter standpoint to make sure that you have enough to run the business?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Sure. Let me give you a feel for the overall cash. So today, we have cash and short-term investments of [$830]million. That kind of breaks down of $770 million in cash and $60 million in short-term. If you take a look at that, there are different components to the cash Shannon. First, the cash that's associated with PB bank is around $250 million right now and that is not accessible for apparent needs. We can use that cash to fund our third-party financing initiatives. If we take a look at what we need from a working capital basis, we basically look at around $300 million to run that business and use that. One other aspect of this is the amount of cash that's in the U.S. versus non-U.S. Right now we're running about [80:20], that will change, it goes up and down. We continue to work and cleanup intercompany loans and things like that. As a matter of fact, we did some work in intercompany loans this quarter, repatriated additional $24 million, and that was some great work by tax and treasury teams. So we continue to work that cash balance. But roughly, you need about working capital of around $300 million.

Shannon Siemsen Cross ***Cross Research LLC - Co-Founder, Principal & Analyst***
Great. And then just one last question for Marc. From a geographic standpoint, clearly, number of company's have called out weakness in Europe. I was curious, I know you sold some of the smaller countries and moved to distribution. But just in general, maybe if you could talk about what you're seeing in end markets? And sort of obviously, there has been a pretty good response to your new product. So I'm just curious if you've seen some of the concerns that others have talked about?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
Yes. I would bifurcate between macro conditions and micro- conditions. From a macroeconomic perspective, I see the same thing that everybody else sees. You see from a European data perspective concerned -- deeper concern candidly in the U.K. as you get closer to Brexit and in Asia, obviously, issues

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that are going on in China and candidly at a bilateral level between China and the United States are concerning. So those are the macroeconomic things to see, pretty much same as everyone else. From a micro economic perspective, from a Pitney Bowes perspective, our international business was minus 3%. So pretty darn good performance and as we contemplate the next several quarters, that performance coupled with the new product gives us a degree of optimism that we will -- whether or whatever the macroeconomic storm occurs.

Operator
And we'll go to the line of Ananda Baruah from lower capital.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
See if I could just sticking with the business environment questions. Marc, it doesn't sound like you guys feel like you're seeing sort of sales pressure, demand pressure intensifying. Can you just give us in context about what your experience in the quarter was just from a week by week basis with regards to demand environment? And then I have a couple of follow-ups.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
Yes, it's a good question and candidly, as we exited the first quarter, we pointed towards momentum as we exited March into April. I would say that same trend continues in the second quarter. If you look at how the second quarter evolves and I put Software to aside for a second because I think that was -- those issues were internal to us. The quarter accelerated both from an SMB as well as a Global Ecommerce perspective. SMB partially because of a new product, partially because of some pretty clever marketing program as well as some very good sales execution had I would say increasingly good performance as the quarter evolved. Global Ecommerce again, I think they performed well but we're just camped out in Global Ecommerce and in a market, that's got such strong growth to it that we're doing better than market for sure. 42% increase in parcels through our network is a heck a lot better than the network. But the answer is the same is that the demand environment for us improved throughout the quarter and candidly, I think that same trend will exist throughout the back half of the year. We're very confident the back half of the year for the top line perspective.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
And could you just provide a little more context with regards to the remarks around added capacity and the volumes that you're actually seeing in China?

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
Sure. Added capacity takes on a couple of different dimensions. We've added a couple of different nodes to our network, we've added 4 nodes to our network. And we've consolidated, replaced kind of upgraded another two. So that's to both consider increased geographic presence, which is important for the economics of that business but it's also if you look at our sites, candidly they need to get bigger as they accommodate more volume. So that have the network will continue to evolve, we'll add more sites, we've got two important nodes that are coming on online in the East Coast and then one in LA. That will be important for peak. So we continue to invest in demand and again, we do that ahead of demand and

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we do that because if you think about when we bought the Newgistics business and it hadn't done that, you lose a lot of clients because you can't accommodate the service levels so you've got to build the network in front of demand. So that's kind of the basic personality of the investment and the dynamic of that business.

To answer your question on China, again, notwithstanding the tensions between the two countries. China inbound is a very fast growing business for us and the one that we talked about $100 million businesses in the Analyst Day in May. This will be our next new $100 million business.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
Just the last one for me is at the Analyst Day you guys gave up a lot of good context around plans for sort of handling the debt portfolio holistically. Can you just give us an update there? Maybe talk to sort of how you're thinking about -- I think this is back in May and may be any context you give around timing, at least to the higher level will be helpful too?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Sure. Now first we remain focused on the balance sheet. We highlighted this in our Analyst Day, and you see it as we walk through the rest of our performance here. If you take a look at the first step is going to be our credit facility and that goes to current and January of 2020. But our intention is to renegotiate that in the back half of 2019. And so that will be the first step as we go through this. And we do have several tranches of debt that are maturing over the next couple of years. It's our intention to pay down where we can opportunistically and then to proactively refinance the remainder. We have been working with our bank group for a number of months with the treasury team and we're structuring a proactive refinancing plan that includes the diversity of funding sources and we'll leverage the capital markets as appropriate. So I think what you'll see is that we do this earlier for the credit facility and then we take a proactive approach to the debt maturities.

Operator
And next we'll go to the line of Anthony Lebiedzinski with Sidoti & Company.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Obviously, I know you guys are pleased with the parcel volumes up 42% and revenue in double digits. So just wondering how should we think about the investments in the market growth opportunities, marketing programs and other initiatives. Just wondering what point should we expect maybe a moderation in those investments?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
So first of all in the investments, I think you have to step back and look at where we're going and if you look at you cannot drive 42% volume growth with investing in a current quarter. This comes from a period of time of adding capacity, of adding the right marketing programs and building out the right types of offerings for our clients. If you look at that, clearly it's resonating in the marketplace with 42% but that happens over time. I think there are a couple of important points here. First, we launched over

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60 new clients in Q2. So this is a big deal as we go through. We talked about our last 12 months in the last call. We've had better turn metrics. We're starting to see more cross sell across our offerings and I think as we look at that, Anthony, we're looking at what does it take to continue to grow this business to scale? So we've got to continue to make those investments. What you will see though is as we gain that scale, you'll start to see the improvements and the economics. And as we go through the back half of the year, I think you should expect that you'll see those improve over time.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
I mean -- I think about this slightly differently. I don't think about when we're going to stop investing. I think about how much of this market I can capture. So this is a market that the economics are driven by scale. So the more scale, the more volume I can put my network, the more profitable ultimately this will be. So as I said, it's unlikely that we're going to get 42% volume growth every quarter. But candidly, as long as you see that kind of demand and you're winning in the market, given how the economics of this opportunity works, you're going to do it. I'm going to do it because there's first mover advantage and this is network economics at its course. So the more full the trucks can be, the more density you can have in particular lanes, the more profitable you will be. I think about that question in a slightly different context.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Got it. Got it. And I did not mean to imply that you would stop investing, I was just wondering as far as where we should see a pickup in profitability.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
When the demand has to moderate.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Right. So as far as your guidance, just wondering what is kind of the embedded expectation for overall parcel volumes for the full year in 2019?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
I think as you think about this for the year-end guidance, first, we're reaffirming our full year guidance and that has the revenue growing 1% to 3% adjusted EPS of $0.90 to $1.05 and free cash flow of $200 million to $250 million. And Global Ecommerce is an important part of that and again as Marc said, we don't expect that 42% is going to necessarily continue through the year but we are expecting a healthy demand through the back half of the year. And that's going to take place in just physical parcels but candidly, we also expect to see increases in our print labels through that part of that business. And as we grow, here and add new clients, we expect to get the benefits of that scale. So this -- certainly Global Ecommerce is going to play an important part and I think that we'll see improvement as we go through the year.

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Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
The long-term economics were configured at a rate growing parcel volume 25%. I would just say as you pointed in the back half of the year, Stan captured the dynamics well, the only other thing I would point out is we have wrapped on the currency issues from last year. So if you think about the 2018 -- the dollar became disproportionately stronger in the second quarter so the cross-border business had been a drag on our overall results and it's hard to say that when Global Ecommerce grows [19%] but cross-border was a drag on the overall results from the first half. I don't think the cross-border business is going to get crazy from a growth perspective in the second half but it should be less than a drag for sure.

Anthony Chester Lebiedzinski ***Sidoti & Company, LLC - Senior Equity Research Analyst***
Okay. That's very helpful color. And then on the Presort side of the business, so and you touched on this already, just wanted to get a little bit more clarification. So you brought in the consultant to address some of the issues with the profitability. Has that initiative been completed? And are there any other key learnings from the initiative that you want to -- you might want to touch on?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
The initiative is not complete. As we stated, when you're dealing with this amount of labor in this type of market, I think it's important to step back and say it's not a point in time. You're going to always drive productivity. I think if you step back, we clearly have progress in Presort. I met with them earlier this week and if you take a look in the revenue grew 4.4% and 2% volume growth. We saw an EBIT margin improvement of nearly 2 points year-to-year and a point quarter-to-quarter. So our work on these and remember these areas include operations, scheduling, dispatch, logistics, pricing. We expect that we'll see continued improvement in the back half of the year. And our arrangement with this consultant ensures that they participate in that and continue to help us drive that.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
I would say that the diagnostic is mostly complete and continue to learn more. I would say just to step back and what have we learned and this is a business that have been really successful for a decade and it's been successful by managing two basic variables. One is volume through the network and the second is 5 digit capture. Those two variables continue to be important but what happened over the last 12 or 18 months is the labor market tightened up and transportation expense got increased. So the broader lesson is you've got to keep your eye on array of variables as macroeconomic, in particular labor and transportation conditions evolve.

Operator
And our next question will come from the line of Allen Klee from Maxim group.

Allen Robert Klee ***Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst***
With Wheeler Financial, can you tell us how much money was put to work providing financing during the quarter and do you still -- and how much do you still think that the same amount can be put to work for the whole year that you originally thought?

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Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Yes. So just a reminder for those who haven't heard this area. Wheeler Financials is a subsidiary for the Pitney Bowes bank, we've set up help small to middle market clients acquire assets they need to grow and expand their own business. So this will be third party lending that can take the form of loans or leases. So we started this and we've been very deliberate and I use that word specifically. We want to do it right, we want to do it with meeting all the regulatory requirements, the right item for our clients and going out. So while we haven't started writing this in Q2, we have not written a lot of new business yet but we are encouraged. Since launching Wheeler, the pipeline of deals has grown nearly 5x, it's over $125 million now for the overall pipeline. So we're going to see how the progress goes into second half of the year. What I would tell you though is that we are going to be deliberate. We are going to do deals that make sense. We've walked away from deals that don't make sense financially. We're looking to address the needs of our clients and do that in a proactive way. So we're going to see how the back half of the year plays out. I think we've gained some momentum here going through Q2. We're encouraged by the pipeline and encouraged by the first set of deals that we've announced.

Allen Robert Klee ***Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst***
Good. And then shifting to Global Ecommerce, can you expand on the comments of margins down to a mixshift of faster growing areas? What that means and does that have any implications on your longer-term margin guidance for that segment? And then one other thing on the segment is you talk about the domestic market and then cross-border, can you help size us of how much of Global Ecommerce is domestic versus cross-border and the growth rates of each one?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
The margin and component here. So if you take a look at margins, we step back, we had good volume growth here and delivery of 42%. We've talked about the investments that we've made but we are seeing a mix in the business, this was contemplated in our Investor Day presentation. And you see that here with what we've announced. Delivery far outpaced the higher-margin returns business. And cross-border improved but it's still a drag. So that's kind of the mix dynamic that you're seeing within the business is delivery, which is the lower margin has far outpaced returns and cross-border. We expect that that's going to ebb and flow but there are a few different items that I think you need to take into account. First, we are starting to see more cross sell within that and what I mean by that is lining up shipping and the deliveries with fulfillment. And selling them as bundles. That cross sell at that grows I think has 2 things. 1, we serve our clients better. They get a more end-to-end experience. Two, it also makes it stickier and allows us to build the margin profile across that business. So we expect that margins will improve as we gain scale through this but as we do look we continue to see that return is not growing as fast as delivery is. And that will ebb and flow through time. And your question about domestic versus cross-border, we haven't put out the exact sizing on that. What I would tell you is we look at where the opportunities demand is and that we go after that demand. So China inbound, Marc shared that we expect that could be our next $100 million business. That's growing. We're going to continue to go after that demand but we also doing domestic and we look at domestically added over 65 new clients this quarter. In total, we're going to go with that demand is and where we can best deliver to our network. Remember, even at cross-border comes in advance within our network domestically, that's

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where the two facilities Marc mentioned in California and on the East Coast are so important. So that's how I'd answer that question, Alan.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
I'd say also that the lines blur a bit between cross-border and domestic. And the example that Stan gave about China inbound, candidly that's not you can recognize in neither of the segment. So not that we're trying to be oblique, but not a very useful metric to put out there.

Allen Robert Klee ***Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst***
And then when you originally in -- I think in the fourth quarter of '18 or earnings call when you gave your '19 guidance. You said that if the China tariffs got increased from 10% to 25%, that would have something like $0.04 or $0.05 impact to your guidance for the year. And then that has happened. So is that going to have an impact on your full year guidance or do you think that you're offsetting that through other things?

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
So first on the question on the tariffs, obviously there's been a dynamic environment here and it has changed. Your correct. What we said back in the fourth quarter that the tariffs we had assumed in our guidance were based of the 10%. The 25% tariffs are in effect on a good chunk of our business here and in fact with this latest announcement of the next step tranche of 10% tariffs right now is going to somewhere in the neighborhood of $0.04 to $0.05 so higher than was originally assumed in our guidance and as we look at that, you've seen what we've done through the first half, we are doing -- working with our partners to try to mitigate that and offset it but that is a headwind as we go into the back half of the year. If we take a look at some of the items we're doing, working with our supplying chain partners, it is relocating the source of supply that's coming in. We did some strategic items around inventory and then we've looked at alternative suppliers. Some of these are short-term and will help us in '19, some are longer term that will help us in 2020. But it's clearly going to have an impact on the year and that headwind is going to be $0.04 to $0.05 versus an original assumption of $0.02.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
We have reaffirmed annual guidance.

Operator
And now we go to a follow-up question from Ananda Baruah from loop capital.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
Marc and Stan, just in the prepared remarks, you had mentioned something about M&A. I believe you said inorganic opportunities. Is there an opportunity or (inaudible) I would love just in context around the broader opportunity in shaping to be able to add scale over time in a material way. What would the landscape look like?

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

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So first of all, inorganic would be an acquisition it can also potentially be a joint venture other forms beyond pure acquisition. We looked candidly at the landscape of potential acquisition targets for shipping. There are some decent targets out there. I hate the prices. So right now, I would say we're not a likely buyer given these prices of price environment changes and the risk of some of these acquisition changes. We'll reconsider but along with our banking partners, we've taken a pretty robust look at what's out there and will be open to it as I said in my remarks intellectually, not at these price levels.

Ananda Prosad Baruah ***Loop Capital Markets LLC, Research Division - MD***
Got it. Is there anything that you could share just how that price you're elevated above normal? Or are they sort of typical but you want to see it come.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Let me double click. I would say that the prices are high as you contemplate what's going on in the transportation logistics market overall. So there is a lot of demand. We probably could've gotten through that but there is a second dimension, which is more concerning that is the labor laws in particular as it relates to many of the logistics companies are influx. So that makes it really hard to contemplate the risk associated with any particular acquisition. The prices are high our database because of some of the things that are going on in the legal world, it has become really hard to assess.

Operator
And currently, we have no further questions in queue. I could turn the call back over to Mr. Lautenbach, if you have any closing comments.

Stanley J. Sutula ***Pitney Bowes Inc. - Executive VP & CFO***
Stan here. I want to clarify 1 item. So you asked about the tariffs, just so I'm clear. We are reaffirming our full year guidance knowing that that tariff impact is $0.04 to $0.05.

Marc B. Lautenbach ***Pitney Bowes Inc. - President, CEO & Director***
Thanks, Stan. So listen, I would go back to one of the earlier questions was if you had to some of the quarter in a single word, the word I would choose is momentum. Momentum increased throughout the quarter as we looked at her team as of July, we see that momentum continuing to increase. If you double click on the completion of the business, SMB has gotten strong momentum, partially because of the product announcements and the pending product announcements. Partially because a higher backlog that Stan pointed to as we exited the quarter. And I would say some pretty darn good sales execution around the world and some marketing programs, in particular some marketing programs that aim at our competitors that are working. Within Global Ecommerce, listen, it's just a fantastic market. To be well positioned within to characterize as relatively small niches in the Global Ecommerce market that we think we can win in that is importantly that we win in our niches to be profitable over time. And candidly, as we get to the back half of the year, we can think about that revenue performance of the Global Ecommerce business going from 9% to 19% first quarter to second quarter. We see that momentum continuing into the second half of the year. So I really like how we're positioned. The Software candidly was disappointing second quarter. There it was at a robust pipeline of deals in the

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second half of the year. will certainly unfortunately accustomed to Software having some up-and-down quarters but they've got a very robust pipeline as we get into the second half of the year and we continue to be very confident about our channel execution there. So all in all, good quarter but we're excited about the momentum that we bring into the second half. With that, we'll close this call and we look forward to talking to you also. Thank you.

Operator

Thank you. That does conclude the conference for today for thanks for your participation and using AT&T executive teleconference. You may now disconnect.

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