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PBI - Q4 2015 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported full-year 2015 revenues of \$3.58b and GAAP EPS of \$2.03. 4Q15 revenues were \$937m and GAAP EPS was \$0.44. Expects 2016 revenue (excluding impacts from currency) to decline 1% to grow 2% vs. 2015 and EPS from continuing operations on adjusted and GAAP basis to be \$1.80-2.00.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes full-year and fourth-quarter 2015 results conference call.

(Operator Instructions)

Today's call is also being recorded. If you have any objections, please disconnect your lines at this time.

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

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

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

More information about these risks and uncertainties can be found in our 2014 form 10-K, annual report, and other reports filed with the SEC that are located on our website at, www.PB.com and clicking on investor relations. Please keep in mind that we do not undertake any obligation to update any forward-looking statements as results 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 most of the points we will discuss turn the call. These slides can also be found on our Investor Relations website.

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



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

Good morning, and thank you for joining us. By now, I hope you had the chance to review the press release announcing our fourth-quarter and full-year results.

As I said our most recent Analyst Day, the second half of the year was an inflection point for our Company. We believe that the progress across the our overall business achieved in the fourth quarter, and more broadly over the course of 2015, reinforces this view and provides us with a reason to be optimistic about the long-term future of Pitney Bowes. Evidence of this is that our SMB equipment sales revenue performance continued to improve in the second half of the year.

Secondly, we deployed our ambitious process reengineering and systems project in Canada, and we're on target to deploy in the United States in the first half of 2016, which is key for us to realize the benefits of investments we have made. And finally, after several years of focus on our balance sheet, our capital allocation priorities have evolved to a more balanced approach of deploying capital for growth and returning capital to our shareholders.

While our overall business did improve in the fourth quarter, it'd also be true that I expected more, particularly from our Software business. The performance of our Software business was not consistent with our long-term model.

Over the last several quarters, and really over the last couple of years, our Software Team had been more effective in terms of their sales execution. The fourth quarter was in departure from this pattern. We did not experience the close rate or the deal size growth rate we would've expected for the fourth quarter of the year. The net of this was a disappointing performance.

We continue to work to move our Software business into new markets and to develop new channels. There's no doubt this is the right strategy. Our existing client base tells me we have the right products, but we need to move faster into these new markets. To that end, I'm confident our new advertising campaign will help condition the market, and our client-driven product innovation will help us build opportunities faster.

In addition, we have named Bob Guidotti to run our Software business. Bob is a proven executive, including his tenure as the General Manager of IBM Software Sales. We look forward to Bob's contributions and expect that he will have a positive impact on our Software business.

All that being said, the objective of our transformation has been and continues to be to create long-term value. Through that lens, we made substantial progress on our agenda in 2015.

In SMB, revenue trends continued to moderate as our new go-to-market model continued to mature. Fourth-quarter equipment sales in US were down only 1%, and in our International Mailing business, equipment sales grew on a constant currency basis, confirming the progress we have made on our new go-to-market initiative.

To remind everyone, while implementation of our new go-to-market model in SMB was disruptive, our new channel strategy provides more reach, drives higher client satisfaction, and is more efficient than the model we were coming from. The stabilization of our equipment sales is clear evidence of the effectiveness of the new energy. In addition, as equipment sales continue to moderate, the associated revenue streams were also stabilized.

In terms of operational effectiveness, we continue to build the right platform and rationalize our portfolio for the long term. In 2015, we continued to dramatically simplify our business, tightening focus on our geographic footprint. Additionally, we are creating the foundation for better client-driven processes with our new ERP application. As I mentioned previously, this work has moved from design to deployment, and with United States clearly in our sights, we're that much closer to realizing the benefits of these new investments.

In addition, we continue to focus on optimizing our working capital. Our inventory is now less than half of what it was when we begin this transformation.

Finally, growing digital commerce. In 2015, we grew digital commerce. We changed the overall capability mix and focus with the acquisition of Borderfree and the divestiture of Imagitas.

Our portfolio is now more focused and well positioned going forward. DCS grew 14% on a constant currency basis in the fourth quarter.

The integration of Borderfree is on track, and we continue to be on our business case. I'm very optimistic about the eCommerce market and how we have positioned ourselves to capitalize on this growing market opportunity.

Now let me take a moment to provide broader perspective on our transformation. The first point I would make is the point I have made from the beginning, transformations are not straight lines. They are difficult, they are hard, and they take time.

That being said, I think the evidence that we are making a successful transformation is compelling. When we started three years ago, our North American Mailing business was declining 7%. We have arrested that decline to around 3% at constant currency.

As you all know, equipment sales are the leading indicator for the SMB business. Over the last six months, at a constant currency level, equipment sales in North American Mailing have been essentially flat. In the last quarter, equipment sales in our International Mailing business returns to growth. We did this while dramatically changing our go-to-market model, which provides better reach, better client service in a more efficient manner.

In terms of operational excellence, we've reduced our debt by over \$1 billion, cut our inventory by more than half, and improved our margins. We've dramatically simplified our business and rationalized our portfolio.

Finally, we have undertaken a substantial systems project to fundamentally re-engineer how we do business. The impact of all of these changes will be a business more able to address the market needs of our clients a lot more efficiently.

In terms of Digital Commerce business, we have focused our portfolio and made target acquisitions to improve our capabilities. We have done this while substantially increasing our organizational capability.

As we transformed our business, we laid out long-term markers. Stabilizing SMB and operating at low-single-digit declines; Enterprise business, flat to slight growth; and Digital Commerce growing north of 10%. We haven't hit those markers every quarter, but over the last three years, we have operated basically within those parameters.

We also have transitioned from a position of rehabilitating our balance sheet to a more balanced approach to capital allocation, enabling us to return capital to shareholders. We need to build on our performance during the fourth quarter, but when I look at what we have accomplished over the last three years, I think the evidence is clear that our transformation is on track.

We're embarking on our most significant advertising campaign in 20 years as we seek to further expand and capitalize on our brand. We have 1.5 million Small and Medium Business clients, in addition to more than 90% of the Fortune 500. We have established a position of trust and are in the early innings of bringing expanded product and solution offerings to these clients. We continue to strengthen our systems and processes while adding great talent to our Team.

As Mike will describe shortly, 2016 will be another step forward in our transformation. Again, this will not be a straight line to the top. That's why it's so important we invest in our future, like our systems, our brand, and continue to build our organizational capability.

With that said, let me turn this call over to Mike.

Michael Monahan - Pitney Bowes Inc. - EVP, COO & CFO

Thank you, Marc, and good morning. As I mentioned when I gave guidance at the onset of the year and I have refer to since, 2015 represented a critical third year in the Company's business transformation. As Marc noted, we made significant progress during the year -- progress that is setting us up for the long-term growth.



This included repositioning the portfolio through several acquisitions and divestitures, introducing a new brand and marketing effort, launching several new products, completing the go-to-market transition in our major markets, and strengthening our balance sheet. This all while we continued to reduce costs across the organization through our operational excellence initiatives and worked to implement a new ERP system, which was initially launched in Canada in October. Several of these actions caused periodic disruptions across the business, but we remained focused on transforming and streamlining our business.

There were several factors that had a direct impact on our results which we identified earlier in the year. Most notably, the net impact from the sale of our Imagitas business and the acquisition of Borderfree and the exit of several smaller markets and non-core products in Europe in 2014. In aggregate, these actions negatively impacted revenue comparisons by 1% for the year and earnings per share by \$0.10 per share.

Additionally, our full-year tax rate on adjusted earnings of 33.5% was at the high end of our guidance range. This higher tax rate was driven primarily by a higher mix of US-source income.

And as with any business, there were elements outside our control that had a major impact on our results. For us, the most significant of these was currency, particularly the US dollar. First, it negatively impacted both revenue and earnings per share from translation effects, reducing revenue by \$133 million, or 3.5%, and earnings per share by \$0.07 per share for the year.

Second, the stronger US dollar made purchases from the US that much more expensive, which lowered eCommerce cross-border activity. That being said, we remained focused on eCommerce by signing 59 new brands and retailers to our platform since acquiring Borderfree, increasing the number of countries to which we ship, expanding our payment options, and growing penetration in the cross-border community.

For the year, our eCommerce marketplace business grew 10% organically, and the Global eCommerce segment grew 30% when you layer in shipping and the incremental revenue from the Borderfree acquisition. While currencies will continue to fluctuate, we are well positioned to take advantage of the growth opportunities in this exciting growth market.

Let me now turn to the financials. First, I'll take you through a high-level review of our annual results, and then I'll discuss the quarter in more detail. I will then conclude with our guidance for 2016 and open the line for questions. Please note that a reconciliation of adjusted to reported financial information can be found in the financial schedules in our earnings press release and posted on our Investor Relations website.

Turning to our full-year results, the Company achieved to results in its full-year guidance range for adjusted earnings per share and free cash flow. Annual revenue was \$3.58 billion, a 3% decline from prior year on a constant currency basis, and a 6% decline on a reported basis.

Revenue results fell a bit short of our expectations. As Marc discussed, this was largely the result of lower license revenue within our Software business during the fourth quarter. We have made, and will continue to make, refinements to the Software business model to focus our selling efforts on solutions of high value to our clients.

Our SMB business continues to improve and stabilize, despite some temporary disruption from the go-to-market changes we made in Europe. In the US, annual equipment sales declined only 2% from prior year, largely as a result of a less-than-1% decline in the installation of our core mail finishing machines.

Additionally, the revenue trend in most of our major markets outside the US continued to improve as we worked through the go-to-market changes and sales organization maturity and productivity. Revenue for the year grew on a constant currency basis in the UK and Italy due to growth in equipment sales in those countries. And as I mentioned earlier, we went live with our ERP system in Canada in October with little disruption to the business.

Turning to annual revenue results by segment group on a constant currency basis, Digital Commerce Solutions revenue grew 9%, Enterprise revenue was flat, and SMB revenue declined 5%. Excluding the impacts of the divested revenues in Europe, SMB revenue would have declined 4%. As a reminder, the annual growth rates for SMB and Enterprise are in line with the long-term market growth rate ranges that I've presented an Analyst Day for the last three years.



And Digital Commerce Solutions is approaching its target growth range. On a reported basis, Digital Commerce Solutions revenue grew 5%, Enterprise revenue declined 3%, and SMB revenue declined 9%.

Adjusted earnings per diluted share from continuing operations for the full year was \$1.75. As I mentioned earlier, currency had a \$0.07-per-share negative impact on earnings for the year. GAAP earnings per share for the full year were \$2.03, and included \$0.32 per share which reflects the gain on the sale from Imagitas of \$0.44 and net acquisition and disposition-related expense of \$0.12; \$0.09 per share restructuring charges; \$0.02 per share for a legal settlement; \$0.04 per share benefit related to a previous investment divestiture; and \$0.03 per share of income from discontinued operations.

Free cash flow for the full year was \$456 million, and on a GAAP basis, we generated \$515 million in cash from operations. Overall, cash flow was impacted primarily by timing of working capital requirements.

During the year, we used our cash flow to return capital to our common shareholders, best evidenced by our competitive dividend and our share repurchases. For the year, the Company paid \$150 million of cash in the form of dividends, bought back more than 6.6 million shares of common stock for \$135 million, and made \$62 million in restructuring payments.

We also strengthened our balance sheet through prudent debt management. From a debt management perspective, the Company paid down approximately \$280 million of debt using a combination of cash on the balance sheet and the issuance of commercial paper. Further, in January 2016, the Company obtained an additional \$300 million of bank term loans and refinanced a \$371-million note that matured in January.

We also invested in the business through acquisition including, Borderfree eCommerce and Real Time Content, our EngageOne Video software solution. The divestiture of Imagitas generated net proceeds of approximately \$270 million, which we were able to use to partially fund the Borderfree acquisition.

At year end, we had just under \$3 billion of debt on the balance sheet, which was about \$280 million less than the prior year. The Company ended the year with \$677 million of cash on hand and \$90 million in commercial paper outstanding.

Looking at the full-year income statement, as a reminder, a reconciliation can be found in our financial statements for any of the adjusted numbers that I talk about. Adjusted earnings before interest and taxes or adjusted EBIT were \$716 million, which was \$15 million lower than prior year. Adjusted EBIT margin was 20%, which was an increase of 90 basis points over prior year. Adding back depreciation and amortization, adjusted EBITDA for the year was \$889 million.

SG&A for the year was \$1.28 billion, which was \$98 million, or 7%, lower than the prior year. As a percentage of revenue, SG&A was 35.8%, which was an improvement of 30 basis points. Since 2012, we have reduced absolute SG&A by \$210 million, while continuing to invest in our new ERP system and expanding our marketing efforts.

For the full year, we recorded pretax restructuring charges totaling \$26 million for actions associated with our previously announced plans to reduce costs. Net interest expense, which includes financing interest, was \$159 million, which was a decline of \$10 million when compared to the prior year. This is the result of the actions we've taken to manage our debt over the last year.

The effective tax rate on adjusted earnings for year was 33.5%, the high end of our guidance range compared with 27.7% last year. Last year's lower tax rate was due to the favorable resolution of certain tax matters. As I previously stated, this year's tax rate was impacted primarily by the higher percentage of US-sourced income.

Now let me turn to the quarter's results. Revenue for the fourth quarter totaled \$937 million. Compared to the prior year, revenue declined 2% on a constant currency basis and 5% on a reported basis, a continuation of improvement in trend.

On a constant currency basis, revenue grew 14% in Digital Commerce Solutions, grew 1% in Enterprise Business Solutions, and declined 3% in SMB. On a reported basis, revenue grew 11% in Digital Commerce Solutions, declined 2% in Enterprise Business Solutions, and declined 6% in SMB.

Adjusted earnings per diluted share from continuing operations were \$0.48 for the fourth quarter. Currency had a \$0.02-per-share negative impact on EPS this quarter. GAAP earnings per share were \$0.44, and included \$0.02 in SG&A expense of costs related to the exit of certain geographic markets during the fourth quarter, a \$0.05 restructuring charge, and income of \$0.03 from discontinued operations.

Free cash flow during the quarter was \$157 million, and on a GAAP basis, we generated \$164 million in cash from operations. During the quarter, we used \$37 million of cash to return capital to our common shareholders in the form of dividends. We also repurchased 1.7 million shares of our common stock for \$35 million. Additionally, we made \$16 million in restructuring payments during the quarter.

From a debt management perspective, the Company used funds from a newly obtained \$150 million bank term loan to refinance \$110 million of debt. Additionally, in January of 2016, we obtained an additional \$300 million of bank term loans and refinanced a \$371-million note that matured in January.

Turning to the income statement, adjusted earnings before interest and taxes or adjusted EBIT were \$185 million this quarter, which was \$15 million lower than the prior year. Adjusted EBIT margin was 19.8%, which was decrease of 60 basis points over prior year, but in line with the EBIT margin for the full year 2015. Adding back depreciation and amortization, adjusted EBITDA for the quarter was \$231 million.

SG&A for the quarter was \$341 million, which was \$6 million, or 2%, lower than the prior year. As a percent of revenue, SG&A was 36.4%, which was 110 basis points higher than the prior year. This increase was due in part to incremental costs associate with the exit of certain geographic markets in the quarter, incremental costs associate with the amortization of Borderfree intangibles, and higher expenses related to the ERP implementation. During the quarter, we recorded a pretax restructuring charge of \$11 million.

Net interest expense, which includes financing interest, was \$40 million, which was a decline of about \$2 million when compared to the prior year. Average outstanding borrowings during the quarter were \$233 million lower than the prior year. The average interest rate this quarter was 5.34%, which was nearly flat to the prior year. The effective tax rate on adjusted earnings for the quarter was 32.1%, which was flat to the prior year.

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

For SMB Solutions in North American Mailing, revenue for the quarter was \$363 million, and EBIT was \$165 million. Revenue declined 2% on a constant currency basis and 3% on a reported basis. Revenue for the quarter declined on a constant currency basis at a lesser rate than it did for the first nine months of the year.

Equipment sales in the US declined 1% versus the prior year, and recurring revenue streams continued to perform in line with prior quarters. EBIT margin was 45.3%, which was an improvement of 130 basis points versus the prior year, due to the mix of business and lower employee-related costs.

In International Mailing, revenue for the quarter was \$114 million, and EBIT was \$14 million. Revenue declined 6% on constant currency basis and 15% on a reported basis. Revenue declined at its lowest rate all year, benefiting from improved equipment sales trends in most of the major markets where the Company has completed the shift in its go-to-market strategy.

Equipment sales revenue grew on a constant currency basis, driven in part by increased sales in the UK. In France, equipment sales declined at a lesser rate than in previous quarters, as the new sales structure increase productivity. However, equipment sales growth was offset by a decline in the recurring revenue streams.

During the quarter, the Company sold or entered into agreements to sell assets and convert to a dealer model in Mexico, South Africa, and five markets in Asia. International Mailing's EBIT margin was 12.7%, a decline of 330 basis points versus the prior year, due to the impact of currency on costs and lower recurring revenue streams.



In the Enterprise Solutions business, starting with Production Mail, revenue for the quarter was \$122 million, and EBIT was \$17 million. Revenue declined 3% on a constant currency basis and 7% on a reported basis. Revenue trends improved versus the prior two quarters and benefited from growth in inserting equipment sales, driven in part by the new Epic product line and higher supplies revenue.

Revenue was adversely impacted by fewer printer installations than the prior year. EBIT margin was 13.7%, a decline of 120 basis points versus the prior year, due to product mix and increased engineering investments, which offset cost reduction initiatives.

In Presort Services, revenue for the quarter was \$122 million, and EBIT was \$28 million. Revenue grew 4% on a constant currency and reported basis.

Revenue benefited from higher volumes of first class and standard class mail processed versus the prior year, as well as new client acquisitions. EBIT margin was 22.7%, which was a decline of 290 basis points versus the prior year, due to start-up costs to expand the network into two new US markets, which offset the benefit from revenue growth.

Turning to Digital Commerce Solutions, in the Software business, revenue for the quarter was \$103 million, and EBIT was \$14 million. Revenue declined 7% on a constant currency basis and 12% on a reported basis. Revenue declined largely due to lower location intelligence licensing revenues in the Americas and Europe, which was in line with the slowdown in the broader software market.

However, as Marc noted, sales execution was disappointing this quarter. Looking ahead, the Company is expanding its partner channel reach and focusing on several high-potential industry-specific solutions to drive growth. EBIT margin was 13.2%, a decline of 450 basis points, as a result of the lower amount of license revenue which has high margin.

In Global eCommerce, revenue for the quarter was \$112 million, and EBIT was \$9 million. Revenue grew 46% on a constant currency basis and 45% on a reported basis. Results included a full quarter of revenue from Borderfree and growth in the UK marketplace revenue.

The Company added a number of new retail clients and expanded his payment options during the quarter; however, outbound package shipments from the US continued to be pressured by the strong US dollar. This is especially true with regard to the Canadian and Australian dollars, both of which were 15% lower in value against US dollar in the quarter versus the prior year. These markets represent two of our top three markets for volumes shipped from the US. EBIT margin was 8.3%, which was a decline of 150 basis points versus the prior year, due to the amortization of acquisition-related intangible assets which offset the early stages of synergy savings.

That concludes my comments on our financial performance for the year and the quarter. Now I'd like to provide some insight on our outlook for 2016. As in the past, we're providing guidance on a constant currency basis.

The Company's guidance assumes that the global economy and foreign exchange markets will not change significantly from year-end 2015 levels. However, as we have seen over the last 18 months, currency exchange rates are subject to substantial movement. Therefore, reported results may vary materially from a constant currency view.

From a sensitivity perspective, each 5% movement in the exchange rates material to the Company's business could impact reported revenue growth by approximately 150 basis points, and adjusted earnings per share could be impacted by about \$0.03 per share.

For 2016, revenue, excluding the impacts from currency, is expected to be in the range of a 1% decline to 2% growth when compared to 2015. We expect the segment groups to continue to trend towards the global market growth rates that we communicated at Analyst Day. Therefore, versus prior year, we expect SMB revenue to have a low-single-digit decline, Enterprise revenue to be in a range of flat to low-single-digit growth, and Digital Commerce Solutions revenue to grow at a low-double-digit range.

Revenue is expected to benefit from the completion of the go-to-market changes in the Company's major markets; new product launches across the portfolio; recent acquisitions, including Borderfree, Real Time Content, and Enroute Systems Corporation; continued growth in the number of eCommerce brands and clients on our platform; and the expansion the Company's Presort Services network.

The benefits will be offset in part by the exit of businesses in Mexico, South Africa, and five markets in Asia, and the conversion of those markets to a dealer network. In aggregate, these markets generated \$26 million in revenue in 2015.

EPS from continuing operations on both an adjusted and GAAP basis are expected to be in the range of \$1.80 to \$2 in 2016. As I laid out at Analyst Day in September, in 2016, we expect earnings per share to benefit by \$0.12 to \$0.15 associated with prior restructuring efforts and early ERP benefits. We also expect \$0.03 to \$0.05 in incremental earnings per share from a full year of synergies associated with the Borderfree integration, net of incremental amortization costs or intangibles.

Conversely, there is \$0.04 in earnings in 2015 associated with Imagitas that will not repeat in 2016. The remaining benefits are expected to come from operating leverage resulting from the actions taken in our portfolio and additional operational excellence initiatives.

Additionally, we have assumed a tax rate in the range of 32% to 35%. This range reflects a higher mix of US-sourced income. We have included a slide in our earnings presentation on the investor relations website which lays out the reconciliation for adjusted earnings per share.

Free cash flow for 2016 is expected to be in the range of \$425 million to \$525 million. Again, as I noted at Analyst Day in September, free cash flow is expected to benefit from \$25 million to \$35 million in operational excellence initiatives, mostly from changes in ERP spend and the related early benefits, as well as up to \$5 million from portfolio-driven initiatives.

Further stabilization of our core Mailing business and lower costs may improve free cash flow further. However, you should note that there was about \$7 million of free cash flow from the Imagitas operations that we got in the first half of 2015 that we will not get in 2016 as a result of the sale in May, 2015.

Let me now provide some color around 2016 from a timing perspective and timeline for our ERP implementation. The Company expects ongoing improvement in SG&A as a percentage of revenue as a result of the expected benefits from the implementation of the new ERP program. The majority of these 2016 benefits are expected to be realized in the second half of the year, as we plan to launch the new system in the US in the first half, and we'll be investing heavily to make sure the launch goes as smoothly as possible.

We will also incur incremental marketing expense related to our new advertising campaign. This expense is expected to be highest in the first and fourth quarters of the year as a result of the planned timing of the Company's new advertising placements. Therefore, we expect earnings in the first half of the year to be more heavily impacted by both the ERP and marketing expense.

We will start to realize most of the ERP benefits, both from a savings and cost-reduction perspective, starting in the third quarter and increasing through the fourth quarter. As I said at Analyst Day, regarding ERP, we designed the system in 2014. 2015 involved the build out, data cleansing, and preparing our environment to operate within this new system, and 2016 will be about deployment of the new system.

We also started to recognize some initial benefits in 2015 as we changed and streamlined our processes in order to be prepared for the ERP go live. As we enter 2016, the capital expenses related to this project are expected to come down, and the benefits will start to materialize as a result of the implementation. We will realize even greater benefits in 2017, post our full global deployment.

So taking you through our 2016 outlook from a P&L, free cash flow, and timing perspective. Let me close with a few comments on capital allocation, and then we can take your questions.

Again, as I mentioned at Analyst Day, over the next three years, from 2016 to 2018, we expect to yield more than \$1 billion in free cash flow. As we have said, we are disciplined stewards of your capital and will continue to take a balanced approach with our capital allocation strategy. We remain focused on investing in the growth drivers of our business as well as returning capital to our shareholders, both in the form of a continued competitive dividend and continued share repurchase. We expect to continue to have the flexibility and capacity to do so.

That concludes my result marks. Operator, can you please open the line for questions?



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Shannon Cross, Cross Research.

Shannon Cross - Cross Research - Analyst

Thank you very much for taking my questions. My first question is just with regard to -- can you dig a little bit more into what went on in software, how you can fix it? How we should think about it this year, and do you need to augment that segment with acquisitions or more organic growth, or just give a little more color there?

Marc Lautenbach - Pitney Bowes Inc. - President & CEO

Let me start. First, I'd begin with why we think we're in such attractive markets. So if you look at the end-user growth rates of those markets, they are all very strong.

I think -- I know, rather, if you look at the clients that are using our products, they are very sophisticated consumers of technology, which tells me we have the good products. And as we've surveyed the market, we have brand permission to sell these offerings. So the first point I make, Shannon, is that we continue to be bullish about the markets as well as the products.

In terms of what happened in the quarter, plainly said, the Team didn't execute. So after, as I said, a couple of years of pretty strong execution in terms of doing what they said they were going to do, we just didn't hit the ball. I don't see it is a pervasive problem; I see it as a quarter aberration. That's not to say other quarters are going to be precisely the way we want it.

I do think, to Mike's point, we're making a couple of incremental adjustments, which will be important. The first is that we continue to pursue new channels. I would note, as we recruit these new channels, they've all taken note of our advertising campaign, and it helps us recruit new partners as well as new clients.

Secondly we've fine tuned our offerings to put them much more in a solution context, which helps clients better understand the value propositions. And finally, I think our advertising campaign will help. As I said, [Mark], Bob Guidotti is a great leader over this. I don't see it as a business that needs to get fixed. I see it as a business that needs to get back on the horse and go.

Shannon Cross - Cross Research - Analyst

Okay, great. That's helpful. Can you talk about -- I don't know if is this for Mike or what -- but on GAAP and adjusted earnings now being equal, which is good because it shows that you're getting through your restructuring and all the other charges,

But how do we think about that as you look at the year given some of the pressures you are seeing in that, and then also from an ERP standpoint? Do you need more restructuring charges as you get the ERP in place because then you can let some people go? Or just give us an idea of how we should think about that and if this is something that you think will be ongoing in 2017 and beyond.



Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

In terms of the guidance we gave, very consistent with what we said last year. Our guidance does not include any restructuring that hasn't been defined and declared at this point in time, so the possibility exists that there's activities that we would undertake, and we would certainly call those out. As you recall, at Analyst Day when we talked about the ERP implementation, we did note the fact that there will likely be additional restructuring associated with the program when we fully deploy it on the back end.

As you saw in the fourth quarter, we took a charge of about \$11 million related to some of the early opportunities we've identified in the program. As we go through the deployment, we'll make a determination whether or not there's additional restructuring activities we need to undertake. But clearly, the benefits will begin to accrue more to the second half after the implementation, and that's when the opportunity would present itself.

Shannon Cross - *Cross Research - Analyst*

Just my final question on equipment sales in general, and then also the decision to move to more distribution in countries with more challenging currencies, which is a positive move. But on the first part, how do we think about equipment sales improvement that you've seen through this year, then, representing itself in numbers in second half of 2016, and then into 2017 and beyond, just the wave theory of the improvement in equipment, then, coming through on some of the recurring revenue side?

And then also, just could -- you can talk a little bit about the distribution decisions and if there are any more markets where you might make that decision. And that is it.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Let me do the last one first, which is -- I think we have addressed all the markets we see in terms of moving to a dealer-type structure in the fourth quarter. We did several, and I think have pretty much completed that process.

Obviously, there will be an ongoing review, but we really identified 12 core markets, and about seven additional markets around those 12 that would be the core focus for us in terms of systems, product, and other investments. We are at that level now and feel like that's a good place to be.

With respect to equipment sales, I would say very much what we are seeing is consistent with what we laid out and the trend we would expect to see. You saw the continued improvement in North American Mailing, and the US in particular, that was minus 1%, which was again an improvement on a year-over-year basis.

International actually grew equipment sales. We had good performance in both UK and actually Italy with the placements with the Italian post.

We have work to do yet to continue to improve in markets like France which really undertook that process later than some of the other markets. So we believe glide path is in the right direction.

In terms of your question about how does that ultimately affect recurring revenue streams, obviously, recurring revenue streams are built up over a period of time. So as equipment sales stabilize, and in some instances growth, then that will begin to turn the direction of the recurring revenue streams or improve the comparisons in the recurring revenue streams, but that will be a more gradual process.

A good example of that is you can see in the North American business, the US in particular, our finance receivables actually went up from the third quarter to the fourth quarter as a result of the performance of equipment sales modestly. And that's not a year-over-year comparison but a quarter-to-quarter. But the relative rate of decline in finance receivables has come down in large part as a result of beginning to see the improvement in those comparisons of equipment sales on a year-over-year basis.



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

Shannon, I'd like to tie your two questions together because at one level, I think they may appear unrelated, but actually, from a strategic perspective, they are very related. At one level, the revenue that we missed as we exited those markets would have been mighty helpful last year. That said, we took the short-term hit in order we could drive better focus on the places where we did get profit, as well as simplify our systems project.

So I think it's a good example of where our mindset is. We'll take some short-term pains, particularly on the top line, in order to secure the long term of the business. I point it out because at one level, it seems like two different things, but it's all part of our -- the overall strategy.

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

Can you elaborate, Marc, on the growth opportunities you're seeing within Borderfree in an environment of a strong dollar? And then talk about how much revenue synergy opportunity you're currently seeing.

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

Let me just start at a very high level. This is a \$7 billion to \$10 billion market that we are very well positioned in as we look at our capabilities.

As you appropriately point out, George, right now, the preponderance of that business is US outbound, which will be in the short term. And by the way, I think one of the things we believe is this currency cycle is going to last for a while longer, so we're under no delusions about the currency dynamics changing anytime in the near future.

That being said, we do have opportunities to move this business outside of the United States. We've moved it to the UK. That's been a very important driver of growth. We continue to survey other parts of the world where we think we can get on the other side of currency.

If you look at this organically, think it's very interesting to note, and Mike alluded to it, we added 75 clients since the acquisition. It takes a while longer for those clients to come online and make a meaningful revenue impact, but that is a material increase in the number of clients, and when you see clients like Target or Harrods, that tells you that we've have great capabilities. So that's why we're so optimistic about the long-term prospects of this business.

It clearly will have some short-term pressures until we get diversified outside of the United States and we get some of these incremental clients online and producing revenue. But if you look at the overall market opportunity and how well we are positioned, I think you can't help but conclude this is a wonderful opportunity for us.

George Tong - *Piper Jaffray - Analyst*

Makes sense. If you had to estimate the proportion of Borderfree that's currently US focused versus international, would you say you're in the first innings still or further along in terms of the internationalization of Borderfree?

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

Listen, we're very, very early here. So if you look at most of the business, it's still US outbound. UK, as I said, coming online and making a meaningful impact, but still relatively small, but I will say proportionally to the two sizes of the economies, it's making a significant contribution.

George Tong - *Piper Jaffray - Analyst*

Can you discuss the progress of your ramping of your UK eBay outbound eCommerce business?

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

It's going really well.

George Tong - *Piper Jaffray - Analyst*

How many countries it's serving and (Multiple Speakers) --

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

I'm sorry. We're now serving 44 countries. I'm looking to Mike for affirmation, I'm pretty sure that's.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes, 44. We've added 11 additional countries over the last few quarters.

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

And it's scaling faster than what we would have thought, which again, I think tells you we've got the right offerings and capabilities.

George Tong - *Piper Jaffray - Analyst*

And then lastly, can you talk about your new advertising campaign and what the incremental marketing expenses could be?

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

I'll talk about it broadly, and then Mike will give you the numbers, although we're not going to divulge the specific spend per se.

If you step back, here is what we've found is that, first of all, we have less awareness in our markets than we thought. Where we do have awareness with clients and prospects, there's a very high consideration rate. So the basic premise is, okay, if we can drive more awareness, there will be a proportional impact on consideration.

It's important in our core, but it is really important in these new businesses. The number of times over the last three years where I've talked to clients and describe to them our capabilities in Software or eCommerce, they say, my gosh, I never knew that. And this is a fast way to accelerate our awareness, and ultimately, our consideration.

It is predicated on that we have brand permission in the spaces, so these are not markets that clients think it's a logical for us to be in. They just didn't know that we had this type of capability. But once they know, then they're more than willing to consider us. That is the basic concept, and that is why this is so important, and candidly, why we stuck with it in what we knew was going to be a fairly challenging year and quarter.

I will let Mike --



Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

In terms of the marketing spend, if I look at marketing in total, so that includes advertising as well as all the other marketing support we do, I will get a little specific around that total spend and how that will calendarize because I think it's helpful for people to understand how that will play out.

I mentioned in my comments that we expect the spend to be the highest in the first quarter and the fourth quarter, and you might ask why that timing. It really bookends what will be a very aggressive and active political season. And so we believe in establishing it in the first quarter and then re-energizing it from a broad advertising standpoint in the fourth quarter while still doing a lot of digital and more direct targeted stuff in between is the most efficient use of our capital.

In doing that, in terms of our total marketing spend, it will probably be about a \$0.03 higher spend in the first and fourth quarters relative to the prior year. Hopefully that's helpful in terms of how people look at the calendarization of that. That's in aggregate how the marketing will lay out.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Just a couple if I could.

Hey, we'd love to get your view on what, if any, some of the macro stuff has had on your business. It doesn't seem like, at least on the surface and some [repeat] of your comments and even you guide, that there's been much at all, but would just would love to get your thoughts there and how you're thinking about coming into the year. And then I just have a quick follow up.

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

Let me address that. I don't think the macro conditions around the world are terribly helpful, other than 12 countries in the fourth quarter, and I have to admit, I came home not very optimistic about the global economy. I think you see that in GDP; you see it in durable goods; you see it in monetary policies around the world.

That being said, I wouldn't blame what happened to us in the fourth quarter on the economy. We had within our control the opportunity to do better, and we just didn't hit the ball.

So I think there's two separate things going. We got plenty of headroom in these markets regardless of what is going on in the overall economy, so that's point one.

Point two, if you think about how we thought about guidance, I will say we are not oblivious to what was going on around us. So our build-up of how we thought about guidance was primarily driven by things that we could control within our own grasp. Read that as savings from our ERP project; that spending beginning to moderate, secondly; and third, synergies from Borderfree.

So we were -- I won't tell you we're conservative as we thought about 2016, but we are much more focused on things that we could control. And if we get some growth in the economy, that will be helpful, but we're not counting on it.



Ananda Baruah - *Brean Capital, LLC - Analyst*

I appreciate that, Marc. That's really helpful.

In the context of the double-digit eCommerce guide for 2016, how should we think about -- how are you guys thinking about what the organic potential is? And actually, since you are adding so many net new relationships to both eBay and the Border, what is the appropriate way for us to view just organic growth philosophically? (Multiple Speakers)

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

The way I would view it philosophically it that market -- end-user market is growing north of 10%, and our expectation over the longer term is to developed that. Clearly, we'll have -- different quarters will be different based on where we are in the maturity of that business, both in terms of the geographic footprint as well as currencies.

I think there's enough coming online in the short term that we're reasonably confident about 2016. But it does operate in an environment where macroeconomic conditions are important, and monetary policies are in particular important. So we're a touch guarded in the short term there only because it's such an unusual climate for monetary policy around the world.

Ananda Baruah - *Brean Capital, LLC - Analyst*

That's really helpful. And then I'm going to sneak one quick one in.

Just on the rentals, it seems not to track a strong as the equipment sales. Maybe, Mike, could you just walk through the dynamic there so that we're clear on that?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

The principal driver against rentals is the France comparison. France and the US, as you know, are the two markets that really drive the rental number, and given the impact of the go-to-market changes that we implemented in France over last year, we see some impact on that. There's also, obviously, currency impacts in that number as you see it as well.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

I just want to go back to the software business a little bit. I know a few quarters ago you had indicated that you hired some new salespeople and they were starting to have an impact. As you look at the Software business, any thoughts on if you need to add more salespeople there, or was it simply, as you said, just an execution issue based on the business that you could have potentially closed?

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

Well, we certainly had execution issues, so I think we need to be pretty plain spoken about that. We don't need any more direct expense in the Software business. We need to do a better job of recruiting new channels, so that will come on and provide reach into new markets.



If I look at the overall level of expense in the Software business, I think it's fine. We'll continue to manage that commensurate with the revenue performance.

But what they need to do -- to make more progress on is recruiting new channels. And I think we're making some progress there, but it's clearly been slower than what I would have hoped.

Kartik Mehta - *Northcoast Research - Analyst*

And then as you look at campaign, Mike, I know you talked about the expense related to it, and this is probably one of the most expensive ad campaigns I think I remember for Pitney Bowes. How long does it take to determine if it is going to be successful and if you continue down this strategy?

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

Let me try that one if I might. Listen, we got 95 years of energy on people's impression of Pitney Bowes. It would be naive to think that we're going to change that impression in a quarter or even a couple of quarters, so this is a long-term project.

To your point, the Company has done no advertising since 1995, so it's been 21 years where we have been out of the market. Since then, we've assembled all these great capabilities, but no one knows about it. So we will take a snapshot in the summertime to see the first (inaudible) of the effectiveness of the advertising campaign, but this is going to take a while to have the important impact that we believe it will over time.

Kartik Mehta - *Northcoast Research - Analyst*

And then Marc, I know you and Mike talked about returning capital to shareholders. In 2015, you bought back \$135 million of share repurchase. As you look to 2016, are you at a point where you can accelerate that, or is that about the amount you would anticipate doing in 2016?

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

If you look at what we've bought back over the last -- since fourth quarter of 2014, again, I'm looking to Mike, but it's [roughly] \$200 million. I think it's \$230 million or so.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

\$185 million.

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

\$185 million. So that is basically with a little bit of purchase in 2014 and then a fairly more aggressive purchase as we got into 2015.

What we said at Analyst Day is still true. We think we will have a balanced approach over the next three or four years. Our bias in the short term is around repurchases, and that's simply because if you look at the different returns of uses of capital, we think that's the highest.

Let me make an additional point. Shareholder repurchases aren't to advantage shareholders that we're buying the stock from. It's to advantage the shareholders that continue to stick with us. My view is there is a lot of earnings opportunity that is in front of us in the short term, and to have that earnings over a more leveraged capital base is a good thing for our shareholders.



So we think about this in context of how we drive shareholder return. Those choices will evolve over time, but right now, based on what we see, we're still confident of what we laid out in Analyst Day.

Kartik Mehta - *Northcoast Research - Analyst*

And then just finally, Mike, as you gave 2016 guidance, what type of FX headwind are you anticipating? I know you gave constant currency guidance. I am just wondering what you've baked in so far for FX headwinds in 2016 versus 2015.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

What we've really done is just looked at versus the prior year. Obviously, we can't predict where currencies will go on a go-forward basis, and that's why we talk about it on a constant currency basis.

As I pointed out, the two currencies that probably have had the biggest impact on us when you look at both translation as well as impact from affecting the purchases from the US because of the strong US dollar have been the Canadian dollar and Australian dollars. As an example, on a year-over-year basis, they had appreciated about 15% against the US dollar.

The key will be whether we see a stabilization or a more modest rate of change in the currencies going forward. That creates a little more visibility and predictability in terms of how people's buying behaviors will be impacted. But we've obviously looked at it from where we are today versus the prior year.

Kartik Mehta - *Northcoast Research - Analyst*

Mike, does that imply that from a GAAP revenue standpoint you're looking at probably down around 4%, 5% because of the currency headwind?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

The currency headwind in 2015 was a little north of 3%, so I couldn't tell you that it's 4% or 5% because at the end of the day, again, it depends on where currencies go from here.

Kartik Mehta - *Northcoast Research - Analyst*

And based on what you see today, you gave guidance based on what the currencies are today versus where they were in the first four quarters of 2015. So does that imply about 4% to 5% headwind from currency?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

I don't think it would be that much given where we are today.

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

I appreciate the question, but I think you got to step back and understand where we are in terms of monetary policies around the world. I think anyone that's try to predict currencies right now, we're not smart enough to do that. That is why we give our guidance the way we do.

You wouldn't have anticipated having negative interest rates in many places around the world. I'm not sure you would have necessarily foreseen currency in China continue to devalue either. So we're cautious about making any predictions as it relates to currency.

Operator

Allen Klee, Sidoti.

Allen Klee - Sidoti & Company - Analyst

Maybe just starting with the followup from the last question, if currency stayed exactly where they are today for the rest of the year, what does that imply in terms of actual reported revenue declines?

Michael Monahan - Pitney Bowes Inc. - EVP, COO & CFO

The translation effect -- and obviously, rates change throughout the course of the year, right? So you may be comparing apples and oranges, and there's no likelihood that we'll have currencies throughout the year the same as it is today. But it's probably in the two-plus range in terms of the absolute as of today, but again, to me, that is a fleeting point of reference because where currencies actually go is what will determine the comparison.

Allen Klee - Sidoti & Company - Analyst

And then recently you announced an Enroute acquisition. I was just wondering if this is material and how you think about the opportunity there?

Michael Monahan - Pitney Bowes Inc. - EVP, COO & CFO

It was a relatively small acquisition, but we feel it's a nice technology add to our eCommerce business. It helps retailers determine the source of the product they're going to ship, so it allows for omnichannel delivery of goods from different sources, whether that's store or warehouse or others. So we see it as a nice addition to our broader eCommerce and shipping platform.

Allen Klee - Sidoti & Company - Analyst

And then your Shipping Solutions business, how did that fare during the quarter?

Michael Monahan - Pitney Bowes Inc. - EVP, COO & CFO

Shipping Solutions is part of eCommerce. We obviously don't break it out separately. It was flat to down a little bit on a year-over-year basis, but for the full year, up low to mid single digits.

Allen Klee - Sidoti & Company - Analyst

In terms of the ERP savings that you're forecasting, how do you feel in terms of the confidence of those savings, that we can feel comfortable about that?

Michael Monahan - Pitney Bowes Inc. - EVP, COO & CFO

Well, as Marc noted, we see as year-over-year benefits really comes in two pieces. One is the lower level of spend in the actual development and deployment of the system. Obviously, the spend was highest in 2015 given that was the predominant period of build and we had the initial deployment in Canada, and we expect, obviously, to deploy in the US in the first half of this year. Those are -- obviously, the initial build and the US deployment are the biggest undertakings, so we feel confident that our run rate expenses come down in the second half of the year.



The second part of that is beginning to realize the benefits associated with it, which is reducing the cost structure. Once we feel comfortable we've got North America, both Canada and US, stabilized, we can begin to take those other costs out of the business. So that's incorporated in our thinking. The bulk of those costs will come out in 2017, but we have good line of sight to the change in the spend on a year-over-year basis.

Operator

(Operator Instructions)

Glenn Mattson, Ladenburg Thalmann.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Mike, I think you've called out, specifically, location intelligence in the Software group as being a little weaker than expected. Can you say -- flesh that out a little bit? Was that some of the newer applications for location intelligence or some of the older, and talk about why that was affected?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

I would say it's more on the mid to larger deals. We typically see some of the larger deals coming in in the fourth quarter. We didn't see as many of those larger deals in location intelligence in the fourth quarter.

The traditional mapping business is really more of a small ticket run rate business. So while that's in a lower growth segment of the market, it was not as big a driver as some of the bigger deals were, and Marc talked to the need to improve our execution on those deals as we go forward.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

So larger deals related to what end markets?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

The end markets can vary across the number of industries, from financial services to insurance and the like.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Then Marc called out execution issues related to Software. A couple quarters ago -- year or so ago, maybe two years ago, there was a plan to rebuild the sales force, and then things started working well with the sales force. But then there was a hiccup along the way somewhere when it came to perhaps the incentive structure was -- needed to be realigned. As we move along, what exactly execution issues were this year, and how can we fix it?

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

I think it's easy to overthink this. They just didn't have the close rate on the deals that they had experienced in previous quarters, and unlike other fourth quarters where deals tend to get larger, deals either stayed the same or got smaller. There's not a lot more to it than that.



Glenn Mattson - *Ladenburg Thalmann - Analyst*

How do we know that's something that's easily fixable just by improving capabilities in house or something, or as opposed to something more worrisome?

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

Well listen, I think you go back to the long-term trends of the market. These are market that had good end-user growth opportunities. We've got a marquee list of clients, which tells me we've got the right products. We've got brand permission.

And as you pointed out, Glenn, it's a Team that they've executed more often than not. Clearly, the fourth quarter was a departure from that, so we need to get back on the horse.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Mike, can you say what the Global eCommerce business did organically in fourth quarter?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

What I did talk to is the marketplace piece, which includes the eBay business, was up about 10% on a year-over-year basis organically in that piece of the business.

In terms of the eCommerce business, overall was up to 30% with Borderfree included. The Border -- well, I should call it the retail part of the business was down organically year over year, mainly due to the currency effects.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

And then Marc, you hit on this. You guys were -- the range of forecast for the guidance is larger than the -- what would be implied by the basics of the operational improvements and the various adjustments going on with the ERP system. I guess that's related to just global uncertainties.

But I'm wondering if Software is fixable in the medium term, and the equipment business seems to be doing well, why you wouldn't perhaps get the -- skew towards the upper end of that range? Or why you wouldn't have guided toward a narrower range towards the -- been a little higher.

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

I think what's going on around the world in terms of macroeconomic conditions in general, currencies in particular, it was prudent to put guidance out the way that we did and to focus on the things that we could control. Now clearly, we'd always like to overachieve, but that's not -- counting off for the things we could control.

Operator

There are no further questions in queue at this time. Mr. Lautenbach, would like to make any additional remarks?

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

Yes, thank you. Listen, fourth quarter wasn't what we had hoped for. There's no doubt about that. That being said, there's nothing systemically wrong with the business.

If you look at -- when you go back to the remarks that we made at Analyst, we talked about being an inflection point. We did that because the core of our business -- read that as our Mailing businesses, including Production Mail as well as Presort, which is 90% or so of the EBIT -- are starting to stabilize. In addition to that, we've got in our sights with the systems work a substantial benefit, both in terms of expense that is going to be not incurred, as well as benefits that we can achieve as we moved from deployment to the next phase.

So we're very confident that we've got the right strategy. Fourth quarter was a blip, and we've got the ability to move this business forward going forward. We'll report back to 90 days, but as we said, we're confident about how we're positioned. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. We'd like to thank you for your participation and for using AT&T Teleconference. You may now disconnect.

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