THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PBI - Q3 2018 Pitney Bowes Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2018 / 12:00PM GMT

OVERVIEW:

PBI reported 3Q18 revenues of $833m and GAAP EPS of 0.41. Expects 2018 constant currency revenue growth to be 11-15% and adjusted EPS to be $1.15-1.30.

CORPORATE PARTICIPANTS

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

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

Stanley J. Sutula *Pitney Bowes Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Allen Robert Klee *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

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

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

Glenn George Mattson *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Kartik Mehta *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

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

PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Third Quarter Earnings 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 participants on today's conference call: Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Stan Sutula, Executive Vice President, 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 2017 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations.

Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments. Also, for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website.

Additionally, we have provided slides that summarize many of the points that 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. We continue to make progress against our strategic initiatives and move forward in our transformation. In the third quarter, revenue continued to deliver double-digit growth, and through the first 3 quarters of this year, revenue has grown on both a reported and a pro forma basis.

Let me provide you an update on the milestones we achieved since we last spoke 90 days ago. Stan will follow up with a more detailed discussion on the quarter, and we'll then take your questions. Our portfolio continues to shift to shipping, which is available through our Commerce Cloud. Shipping revenues comprise more than 30% of our overall revenue in the quarter and that number continues to grow. On a pro forma basis, total shipping volumes in our Commerce Services business grew 14% over prior year and also increased from prior quarter. On a year-to-date basis, this takes our label and parcel volumes to nearly $400 million.

One of the main pillars of our strategy is to remove the complexity of shipping for our clients, and we are doing it. The growth we are seeing in our volumes is the proof point. In support of our shipping strategy, we recently opened our new Fulfillment, Delivery and Return Center in Greenwood, Indiana. This facility leverages cutting-edge technology so that we can service our domestic shipping clients more quickly and efficiently. This Super Center is unique in its ability to facilitate the entire e-commerce process by leveraging state-of-the-art technology including solutions powered by robotics to efficiently fulfill orders, enable deliveries and process returns for consumers and e-commerce retailers. We're also reaping the benefits of Newgistics cross-sell opportunities while reducing the complexity of shipping for our clients. Earlier this year, we launched a new offering within client, which leverages our Cross-Border expertise in combination with our Newgistics domestic delivery services to enable e-commerce sellers in China to ship products to buyers in the U.S. faster and easier.

In SMB, our SendPro C-Series is another proof point of how we are taking the complexity out of shipping for our clients. Since launching this product, we have placed nearly 57,000 units in the market. As a reminder, this product addresses a large segment of our existing SMB installed based in the U.S. in addition to new prospective clients. With the 57,000 placed in the first year, we are making good progress in transitioning this existing base of clients to the new product as leases come due.

The C-Series is a multi-application mailing and shipping device that is digitally connected on an open Android platform. Because of this platform, we are able to start to pull in new apps to our clients. In the third quarter, we deployed 5 apps, which include the SendPro Care, Shipping Alerts and Reports Same Day Delivery apps. It is early as we are launching these apps in a phased rollout, but we're already starting to see a positive response as clients see the new value we're able to deliver to them, especially around shipping. Additionally, with the recent USPS proposed $0.05 discount in First-Class Mail for meter users, our C-Series brings together reduced postage and competitive shipping pricing options for our clients, which is a strong value proposition.

Our achievements and operational [excellence] are evident in our spend reduction. To-date this year, we have reduced gross spend by over $100 million. The savings are evident in our SMB margins, which continue to perform above the long-term market range. And as we announced last quarter, in August, we redeemed $300 million in notes that were maturing in 2019. This brings our total debt reduction to over $560 million this year with no major tranches of debt coming due until 2020.

When we think about leveraging economies of scale and experience as a company, we have spent the last 5 years developing the necessary assets around our software, systems and platforms within each of our businesses in order for them to operate more efficiently. These assets are now embedded in each of our businesses. We're able to use these assets to help drive client value. With the Commerce Cloud, we have been enabling the creation of competitive, moderate solutions across our lines of business.

The Commerce Cloud is a catalyst for our transformation and modernization leveraged across the company. The progress that we have made building out strategic foundational technologies of SaaS, API management, mobile, big data and IoT have been enablers to our growth. In addition, our APIs are a great example of how we are leveraging economies of scale and experience across the enterprise. Our shipping APIs, which are used within SMB and Global Ecommerce, continue to ramp up volumes. Another example of leveraging our economies of experience and scale is through the expansion of our Newgistics network. We are also able to take advantage of additional operational synergies with our Presort network.

Let me switch gears here for a moment. I've spoken with [you] over the last few months regarding our capital allocation priorities, specifically in regards to our dividend. Let me try to lay this out succinctly. First and foremost, all of our capital allocation decisions are made with the objective of creating long-term shareholder value, and we will continue to invest for that long-term value creation, be it organically or inorganically. Our level of investments and any changes to the composition of the portfolio will drive our capital needs. Therefore, our dividend will be a result of our decisions and actions, not a driver.

Just a few years ago, Pitney Bowes was a company that was largely tied to physical equipment and mail volumes, a business closely [fitted] with an industry that is in secular decline. We could have stayed the course. We are the #1 player in postage meter space with a solid client base and very strong margins. But the mail market is in decline, so staying the course would not be the right long-term solution for our stakeholders, for the company overall. We have made tough decisions to divest certain businesses and product lines, reduce costs and get out of certain geographies, while at the same time making strategic acquisitions.

We have changed the complexion of our business in our business model. This wouldn't have been possible without investments. We've invested in our platform, our systems, our products, our brand and our talent in order to move this company well into the 21st century and well into the adjacent shipping space, which is growing. We have utilized our strong cash flow to make these necessary investments and have been able to maintain a manageable debt level. Today, our debt is actually lower than where we were 2 years ago and yet our portfolio has changed significantly and it's a portfolio that has shifted to growth. That being said, we must continue to move forward. While the toughest parts of our transformation is behind us, we still certainly have more work in front of us. The Pitney Bowes of tomorrow will continue to evolve. I anticipate that our conversations a year from now will be different, just as they are different today from 5 years ago.

Let me reiterate our capital allocation priorities as I presented them at Analyst Day in March. First, we have and will continue to invest in our portfolio, particularly around shipping and shipping related capabilities. As I mentioned, shipping is a large market that is growing quickly. We cannot move forward without making the investments to differentiate ourselves through our unique offerings, which will further reduce the complexity of shipping for our clients. Second, as the Pitney Bowes portfolio evolves, we will continue to look at inorganic investments, and we'll also ensure that value within our existing portfolio is being realized.

Our third objective (inaudible) the balance sheet through the paydown of debt. And finally, we will continue to deliver shareholder returned, primarily through a competitive dividend. Our capital allocation strategy has always been oriented toward long-term value creation value, which is resulted in a balanced approach. So to summarize, we have moved the portfolio to growth. We have reduced our cost structure significantly while making necessary organic and inorganic investments. We have reduced debt by over $1 billion, and we returned over $1.25 billion to our shareholders.

Let me now make a few points on the third quarter before handing it over to Stan. We reported revenue growth again this quarter and EBITDA grew over prior year. SMB turned in a good performance with the revenue decline and EBIT margin both performing within the long-term market ranges. In fact, we grew EBIT dollars year-to-year in this business. In addition, North America Mailing revenue declined less than 2% and their EBIT margin expanded significantly. With software, we knew we were entering the quarter with a lower level of renewals, and last year also included a large deal, which skews the comparison. The team did a good job closing small deals but the lack of large opportunities coupled with a difficult compare made for a tough quarter.

That said, we're off to a good start this quarter, having already closed several deals that moved out of the third quarter, which gives us confidence for the fourth quarter. In addition, we now have closed 3 platform deals with our Global Systems Integrators. These deals are a managed service and have the opportunity to be a reliable future stream with partners that have significant reach. Commerce Services continues to turn in a solid top line performance. Newgistics once again had very strong top line growth, which indicates the market attractiveness of the capabilities in this business. That said, Commerce Services continues to be impacted by headwinds around the higher dollar and higher transportation and labor costs. And investments made through the quarter are also impacted in the bottom line, but they're necessary to support the company's strategy and to continue to take advantage of the growing shipping market. Despite all of these headwinds and investments, Commerce Services still grew EBITDA from the prior year.

Let me now turn it over to Stan, and he can take you through the details of the quarter.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Thank you, Marc, good morning. This quarter, revenue grew over prior year, and we continue to reduce spend and our debt. EBITDA also grew over prior year. We continued to make good progress against our strategic initiatives and the portfolio continued to shift more towards shipping. As our portfolio shifts with the growth of our Global Ecommerce business, inclusive of Newgistics, our seasonality will also shift even more towards the fourth quarter. And while more work still lies ahead, we are seeing the progress begin to manifest itself in our financial performance.

Let me turn to our results. As always, and otherwise noted, my statements going forward will be on a constant-currency basis when talking about the revenue comparisons and on an adjusted basis when talking about earnings related items including cash flow. Reconciliations of all non-GAAP to GAAP measures can be found in the financial statements posted with our earnings press release and on our Investor Relations website. For the third quarter, revenue totaled $833 million or a growth of 14% over the prior year. On a pro forma basis, with Newgistics assumed in both periods, revenue rounds to flat compared to prior year.

Looking at revenue by group, Commerce Services grew 59%, SMB declined 3% and software declined 19%. Adjusted EPS was $0.27 for the quarter. GAAP EPS is $0.41. GAAP EPS included $0.03 in restructuring charges and a $0.03 charge related to the early redemption of our 2019 notes. GAAP EPS also included a net benefit of $0.04, related to the 2017 tax legislation. And a net gain of $0.16 in discontinued operations, largely related to our recent divestiture of our Production Mail business. GAAP and adjusted EPS include a net benefit of $0.03 largely from the resolution of certain tax examinations.

Free cash flow was $94 million and GAAP cash from operations was $116 million. Compared to the prior year, free cash flow declined by $11 million, largely due to the timing of accounts payable and improvement in finance receivables, which was partly offset by the timing of accounts receivable. Free cash flow came in as we expected this quarter with the exception of a $30 million tax refund that we anticipated in third quarter but now expect to be a fourth quarter occurrence. This $30 million refund is anticipated in our annual free cash flow guidance.

Looking at capital allocation for the quarter, we used cash flow to pay $35 million in dividends to our shareholders and $12 million in restructuring payments. Capital expenditures totaled $41 million, which is about $2 million lower than prior year. At the end of the quarter, our total debt was just under $3.3 billion, which was about $910 million lower than the same period last year. The $3.3 billion in total debt is at a similar level to the first quarter of 2017. As we mentioned last quarter, we redeemed our 2019 notes of $300 million, bringing our total debt paydown to over $560 million to date this year. At the end of the quarter, we had $115 million in cash and short-term investments on the balance sheet. During the quarter, we repatriated $53 million of non-U. S. cash, bringing our total in repatriated cash to just over $520 million to date this year.

Looking at the P&L, starting with revenue performance by line item as compared to prior year, business services grew 58%, which is largely attributable to the incremental contribution for Newgistics. On a pro forma basis, business services revenue grew 8%, driven by the continued growth in Global Ecommerce and Presort. Equipment sales declined less than 2%. We had declines in support services of 2%, rentals of 4% and financing and supplies of 5% each. Software declined 18%.

Gross profit was $398 million with a margin of 47.8%. This is a decline of 9 points from prior year, primarily driven by the addition of Newgistics, which was not in our results last year and accounts for 6 points of the drop. The remaining portion of the decline reflects the organic shift to our growth businesses as well as continued headwinds around labor and transportation costs. SG&A was $269 million or 32.3% of revenue, which was an improvement of 6 points from prior year. Compared to prior year, SG&A was $14 million lower despite $16 million of incremental SG&A related to Newgistics, which was not in the prior year. The lower SG&A reflects our execution of our operational excellence initiatives throughout the business.

At a gross level, we continue to reduce spend this quarter and to date have achieved a significant percentage of our commitment for 2018, putting us on track to deliver gross savings of over $120 million this year and at least $200 million through the end of 2019. R&D expense was $33 million or 3.9% of revenue. Compared to prior year, R&D expense increased $3 million and was essentially flat as a percent of revenue. As our portfolio shifts to growth markets, we also continue to shift our R&D spend to take advantage of these opportunities.

EBIT was $98 million and EBIT margin was 11.7%, which was a decline of $6 million and 2.5 points versus prior year. Excluding Newgistics, EBIT margin would've been essentially flat to the prior year. EBITDA was $148 million, which was an improvement of about 1% over prior year. Interest expense, including financing interest expense, was $37 million, which was $4 million lower than prior year as a result of our debt management.

The provision for taxes on adjusted earnings was $10 million, and our rate was 16.6%, which was lower than prior year by about 4 points, mostly due to the resolution of certain tax examinations in the quarter. On a year-to-date basis, our adjusted tax rate is 22.4%. We still expect to be within our annual guidance range of 23% to 27%. Diluted weighted shares outstanding at the end of the quarter were 188 million, which is about 1 million shares higher than prior year.

Let me now discuss the performance of each of our business segments this quarter. Within the Commerce Services group, revenue was $358 million, which was growth of 59% over prior year. On a pro forma basis, revenue grew 8% over prior year. EBIT for the group was $3 million and EBIT margin was 1%. EBITDA was $25 million and the EBITDA margin was 7%. In Global Ecommerce, revenue was $233 million, which was a growth of 120% over prior year, and included a full quarter of incremental revenue from Newgistics. On a pro forma basis, Newgistics delivered strong revenue growth of 19%, driven by double-digit growth in fulfillment and parcel volumes. We are delighted with the market acceptance of our Newgistics offerings.

On a pro forma basis, Global Ecommerce grew revenue 10% over prior year. This was driven by the growth in Newgistics. Shipping solutions saw a strong double-digit volume growth over prior year and also grew volumes from prior quarter. The growth was partially offset by a decline in Cross-Border revenue, due to strengthened U.S. dollar and new regulations and taxes in some of our larger inbound markets. Within our Global Ecommerce business, we have diversified the portfolio and client base through new and expanded offerings like shipping APIs and the Newgistics business, enabling us to perform better than before in different economic environments.

EBIT was a loss of $14 million and EBIT margin was a negative 6.2%. The EBIT performance was driven primarily by investments in market growth opportunities as well as automation, network optimization, simplification and technology upgrades. As Marc mentioned, these investments are necessary to remain competitive and move forward with our strategy as well as to drive long-term profitability. EBIT was also impacted by higher transportation labor costs as well as incremental amortization of intangible assets related to the Newgistics acquisition.

EBITDA was $1 million, which was an improvement from prior year. Within Presort Services, revenue was $125 million, which was growth of 5% over prior year and driven by higher volumes of First Class Mail as well as Bound & Packet mail and flats, but partly offset by lower Standard Class mail volumes. EBIT was $17 million and EBIT margin was 13.9%. EBITDA was $24 million and EBITDA margin was 19.4%. Presort EBIT dollars and margin improved this quarter as compared to last quarter. While our margins are still impacted by the macro environment around increased transportation labor costs, we have taken actions to reduce spend in this business. Additionally, we continue to invest in automation and process improvements. These investments include new equipment like sorters and sleevers, which will reduce costs and meet our clients' expectations more efficiently over the longer term.

Turning to our SMB group, revenue was $399 million, which was a decline of 3% from prior year. EBIT for the group was $131 million and EBIT margin was 32.8%, which is an improvement from prior year and within the long-term market range. This improvement aligns with our long-term model for this business to generate strong free cash flow. EBITDA was $152 million and EBITDA margin was 38%.

In North America Mailing, revenue was $314 million, which was a decline of 2% from prior year. Equipment sales grew 2% over prior year. We continue to experience good growth and placements of our C-Series product. Since launching a year, we have placed nearly 57,000 units and are on track to transition our client base into the new product over the next several years.

For me though, the headline of the quarter for North America Mailing is around our recurring revenue streams. In total, our streams continue to decline at a lesser rate than prior periods. Additionally, we saw a growth in services, largely as a result of our shipping related products. As a result of the improved equipment sales and streams, gross margins grew over prior year and continue to perform within a 1-point range over the last several quarters. EBIT was $118 million, which was an increase over prior year and it is the first time EBIT dollars have grown year-over-year since the fourth quarter of 2015. EBIT margin was 37.6%, which is about 4 points higher than prior year. EBITDA was $135 million and EBITDA margin was 43.1%.

In International Mailing revenue was $85 million, which was a decline of 7% from prior year. Equipment sales declined, largely driven by weakness in the U.K. and France but partly offset by growth in Japan and Australia. Recurring revenue streams also contributed to the overall decline. EBIT was $13 million and EBIT margin was 15.1%, which improved 6 points over prior year due to lower expenses and higher gross margins. EBITDA was

$16 million and EBITDA margin was 19.1%. In Software Solutions, revenue was $76 million, which was a decline of 19% from the prior year. Coming off a strong second quarter, we knew we had a lower level of renewals this quarter. While we closed a similar number of large deals this quarter as last year, they generated lower overall revenue.

This quarter's comparison was also partially impacted by a large Location Intelligence deal we closed last year. We continue to achieve strong execution in small deals, growing double digit over prior year, and our SaaS revenues grew as well. EBIT was $4 million and EBIT margin was 4.7%, which was a decline from prior year attributable to lower revenue. EBITDA was $6 million and EBITDA margin was 8%.

Let me wrap up with our annual guidance. We are reaffirming our annual guidance of revenue on a constant-currency basis in a range of 11% to 15% growth. Adjusted EPS to be in a range of $1.15 to $1.30, and free cash flow to be in a range of $300 million to $350 million. From a timing perspective, historically the fourth quarter has always been our biggest quarter on revenue, earnings and cash flow. Given our portfolio continues to shift to growth around shipping, the seasonality of our business has shifted even more to the fourth quarter, especially with the holiday season in our Global Ecommerce and Newgistics businesses.

We continue to invest in items around automation and network optimization, particularly within our Commerce Services businesses. We expect to recognize some of these benefits as well as more synergies related to our Newgistics business in the fourth quarter. We are on track to achieve our gross spend reductions of at least $200 million through the end of 2019.

So let me wrap up. On a year-to-date basis, we have grown reported and pro forma revenue over prior year. We have reduced spend significantly while still [investing] in the business for the long term. We have reduced our debt and managed the balance sheet. We continue to make progress in this transformation but as always, there's still work in front of us. With that, Marc and I will now take your questions. Operator, please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ananda Baruah from Loop Capital.

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

I think just 3 if I could, 2 will be really quick. The first is just with regards to the December quarter revenue guidance and the comments around seasonality. If I just do the quick math, I think it implies at least 50% sequential revenue growth Q-over-Q. Is that accurate? I just want to make sure I'm not doing any of my numbers wrong. And then if it is, can you sort of just lay out the signposts for us with regards to the forecast. It – look, it totally [makes sense] sort of the skew because of the shift because of the e-commerce and the shipping. But maybe if there's any additional detail you can give us with regards to that to give us context around what could be the drivers as you go through year-end, some of the specific stuff. And then I have a couple follow-ups.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Ananda, thanks for the question. So as we look at the full year guidance, this portfolio has quickly shifted to growth. Revenue year-to-date, we're at 16% constant-currency growth over the prior year. Now in Q4, that level will drop just given Newgistics will analyze -- annualize here over it. But if you look at Q4 heading in, SMB, we had arguably the best quarter we've had in a very long time in SMB. And these streams and EBIT margin are expected to perform kind of similar to Q3 or improve slightly. But then when you look at holiday volumes and driving scale, this is the driver for e-commerce and Newgistics. I mean, this is a big lift for both of those businesses. Presort, we continue to invest in improvement in managing transport and labor costs and as they pick up going through. And then Software, Software is going to be one of the bigger drivers quarter-to-quarter when you look at it in that regards. We had a difficult quarter in software. But as you go to fourth quarter, there are more renewals, there's a larger pool of big deals and certainly an easier compare. So we look at Q3 to Q4 and remain confident of being within our annual guidance range of revenue of 11% to 15%.

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

Okay, great. And then just a follow-on to that one. Is this the kind of -- is this kind of seasonality? I mean, it's early days in putting this portfolio together in this way. But it seems like -- I didn't calc the high end of the guide, but it's probably like imply something like 80% Q-over-Q rev growth. So is this kind of like 50% to say 80% or 80% or so? Do you think this is going to be normal for the December quarter going forward, if you guys are successful with this?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

As we move toward shipping because of the -- of what the peak is in those industries. Our business, we have talked about this over the last several quarters, is going to continue to shift towards Q4. If you just, kind of, think of -- globally it's in a rate of growth that we have in that business both for Newgistics, Cross-Border and looking at e-commerce in total. I do believe that we'll continue to see a shift in our portfolio to be more back-end weighted into Q4, just as natural occurrence of the volumes in that business.

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

If I can just add, I mean, just in a very simplistic level. If you think about the 2 drivers quarter-to-quarter it's Software. So if you look at the range of Software, unfortunately it kind of porpoises quarter-to-quarter, which adds variability quarter-to-quarter. We believe the fourth quarter looks more like the higher end of the ranges we experienced over the last couple of years. And then if you think about the Shipping business, we talk about shipping but underneath this is business to consumer or retail to consumer. So if you think about all the stuff that goes on in the holiday season, Black Friday, Singles' Day, all those kind of things. Those are the kind of things that are in the fourth quarter. So I think there's a natural skew of these businesses around seasonality and then software has its own unique characteristics on top of that.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Yes, we've seen Newgistics as a -- just to add on to that, accelerate in the Q3 over the first half growth rates. So we like where that business is going.

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

And that's the other aspect of it is, as we exploit the cross-sell opportunities. So there's a natural seasonality to all these businesses, partly because of the holidays, partially because of how businesses operate. But we're also picking up incremental demand from cross-selling and Newgistics and how we reconfigure our capabilities. So there's a bunch of things that kind of add momentum as we go into the fourth quarter.

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

Okay, got it. That's super helpful. And I'll just keep it to one quick follow-up. Just the 5% discount, can you just walk through the dynamics how we should think about that? The mechanics behind that, how it impacts you guys and the opportunity?

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

Yes, if I can just go up a level. So as you look at what's going on with the USPS in particular. If you think about Pitney Bowes reason for being for almost 100 years, it was to help the USPS become more efficient and drive value into their business. So as we look at what's on the horizon with the USPS, and as they strive as every other institution does become more economically sound. In general, we see that as an opportunity for Pitney

Bowes and USPS to do even more together. As it relates to the $0.05 discount, let me quote the USPS here because I think it's worth noting. "Meter-based payment is more efficient than stamp-based payment, it eliminates the need for stamp production, distribution and cancellation and fosters more consistent use of the postal system, slowing the migration of mail volumes to electronic channels. Small business volume in particular should be protected by this decision." So I think that -- I think the Postal Service has it quite well. In general, this makes metered mail more attractive vis-à-vis the alternatives. That can't help but be a stimulus for Pitney Bowes in 2019.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

And I think our new C-Series that we launched last year actually positions clients to take full advantage of this and add shipping to that capability as well. So it enhances the value proposition for our offering.

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

The other aspect of the C-Series is it does multi-carrier shipping. So as prices evolve in that marketplace and in the competitive marketplaces, the ability for clients to do price compare versus the different carriers is even more important going forward. So we like what we're seeing from what's gone on so far.

Operator

Your next question comes from the line of Glenn Mattson from Ladenburg Thalmann.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Just want to -- one point of clarification against the last question. I think Ananda had said that the rev guide pointed to 50% sequential growth. But perhaps that's not taking into account some of the adjustments that were made in the portfolio. Because of the way I do the math it's, at the low end it's like 13% sequential growth and at the high end, it's like 28% sequential growth.

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

Yes, I thought he said 15% but...

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

He said 15%, maybe, okay. But so just to be clear on that, okay. Otherwise I wanted to ask questions about a number of things. There was some interesting things in the quarter. The out performance in SMB. I mean, can we talk about that a little further? And just talk about how it's sustainable to what level it is? I mean...

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

I can talk about it all day long.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Yes. I mean, the -- I think it's a second quarter in a row where the recurring streams kind of performed a little better. So perhaps, Marc, you want to expand on what your thoughts there?

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

Sure, I'll add and then Stan will enhance. So I would still point you towards our long-term guidance as it relates to how our business has performed. So it's tempting with the quarter-to-quarter swings to over interpret a particular quarter. That being said, if you look at the SMB performance in the third quarter, it was within our overall long-term range. So to the extent those things match then, yes, we think it's sustainable. I would point out in particular, you mentioned the streams, our Services Business had just a great performance in the quarter. They're really doing a good job with their existing legacy business but they're also doing a good job picking up new business, and importantly our Financial Services business is steadying as well. So lots of good things. And you made a really insightful point, so it's easy to kind of get overly enamored with equipment sales and all those kinds of things. That stream revenue stabilizing at $300 million-ish or so is an important factor because it protects the overall cash generation of the company. Now Stan will elaborate on that.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

So Glenn, as we look at North America Mailing, we're pleased with the performance this quarter. Overall revenue is down 2%, equipment sales were up 2%. The stream revenue though I think is actually the one to focus on, as you highlighted. It's down 3.6%, that's the best performance recently. And the gross profit margin has been consistent over the last several quarters. Expense continues to improve year-to-year and EBIT dollars grew year-to-year and EBIT margin was up 4 points. So the revenue certainly was an easier compare in the current quarter, given last year we were announcing the new product that came out late in the quarter, but we're really pleased with the margin expense performance. I think importantly, 1 quarter doesn't make a overall trend, but we really like to progress and it gives us confidence that we will perform in the long-term model over time at this minus 2% to minus 4%, and 30% to 35% EBIT. So a good quarter overall in North America Mailing. We also see it manifest itself in finance receivables, which reduced, on a year-to-year basis, at a slower rate than it has in prior quarters.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Yes, can you remind me, you said -- you gave a number for a number of units that were converted to the new meter. Is it -- are we -- how far along on the process are we in that conversion? And maybe, are we towards the bottom of the pendulum swing as it relates to that?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

We've shipped about 57,000 units over the past year. We said originally that's -- this will address about half of overall population. So we still have a ways to go, I'd say we're early in. And keep in mind we're just starting. In 2019, we'll be rolling out this capability to the non-U. S. So I'd say we're still early innings on this. And again, that offering combined with the meter mail benefit of $0.05 now and multi-carrier shipping, and the ability we have launched 5 new apps this quarter as well, I think the value proposition only strengthens for the C-Series.

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

Yes, I'd build off that last point. So as we think about the C-Series, it's for sure a meter replacement but candidly it's much more than that. So we don't look at the opportunity for C-Series as just a meter replacement for ours or our competitors. We look at that as a utility device that carries contemporary applications for shipping into the market. So in that sense, it's a whole different ballgame.

Operator

Your next question comes from the line of Kartik Mehta from Northcoast Research.

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

Marc, I wanted to ask a little bit about Global Ecommerce business and when you think it can achieve sustained profitability. I realize you've been investing in it and trying to achieve as much growth as possible and take market share. And I'm wondering, at what point do you think we'll see sustained profitability?

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

Yes. Let me step back and provide a little bit of context because I think it's important. So the way that, that business gets to profitability is threefold. But the most important one is scale. So if you think about the things that we're doing to drive profitability in that business, scale is #1; the Newgistics integration, the synergies around the Newgistics are #2; and #3 is operational excellence stuff that they're doing. So if you go back to the first one and you double click on scale, we think it's important to make those investments in the network and customer acquisition, and if we can find acquisitions that make sense because that gets us to sustained profitability sooner versus later. In terms of any particular period, we're EBITDA positive in the third, we think that will continue to be true in the fourth, and then we'll get into 2019 soon enough. So I think it's sooner versus later. I'm not going to put a particular time frame on it because of the nature of the opportunities. The more that we can make investments that get us to scale, the better off that is in the long term. And the reason that's important is if you think about our businesses, if you look at the shipping business in terms of an external marketplace, the multiples that go in shipping logistics market are higher than office supplies. So the sooner we can get our profitability tilted towards shipping, the sooner we can have a different conversation about multiples.

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

Maybe, Marc, if you just look at -- I know you talked about -- a little bit about the USPS and the $0.05 discount, but seems like there's a lot more going on at USPS, and maybe Congress and others pushing for changes. Just overall what's happened, what do you see that -- what are the positives that could come out of that for Pitney, and what are some of the, maybe negatives that might happen because of all the changes that are being proposed?

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

Well, I mean, again, I go back to a very top level. So if you look at all of the changes that are being discussed or contemplate for USPS, it's about how you make that entity more financially viable going forward. As you think about why Pitney Bowes has existed for almost 100 years now, it's been to that particular cause, to help the USPS be more economically viable. So in general, we see what's going on as an opportunity. The metered mail is a good example if you look at some of their workshare programs, that's a second example. And then we'll see what happens on the negotiated discounts, that's still in front of us. But what I would say about the negotiated discounts in the competitive market rates is, as we look at the value that we provide to the Postal Service in those competitive markets, we're really confident of the value that we provide and that's something that we want to build off of.

Operator

Your next question comes from the line of Allen Klee from Maxim Group.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

In the Presort segment you spoke of taking actions to reduce spend and then investing in automation. Do you believe that this can get you back to where margins had been there over time say, the -- around 20% EBITDA -- EBIT margin range?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

If you take a look at Presort, 2Q is a difficult quarter for them. But if you look at what happened in Q3, grew revenue in that business, we took a [number of cost] actions and EBIT margin bounced back to 14%. So just below where we are. Now the year-to-date margin's 15%. So we said that the margin of long-term plan for that business should be north of 15%. We're still confident we'll operate in that level. Let me give a little color on what we've done in this business. Debbie Pfeiffer runs this business for us. It is 37 centers across the U.S., and we have invested heavily in capital. We will -- we have doubled the capital spend on a year-to-year basis. That is doing things like sorter refreshes, which we get a big productivity boost out of that. We've invested in sleevers, which automates a very difficult part of the process for us, and we've enhanced the facilities that our workers operate in. When we look at that, that long performance of combining these, we are seeing synergies now of combining trucking routes with our Newgistics facilities and those routes that go both to clients and to the post. And as we look at that combine with the labor efficiencies, we're confident that we'll continue to improve this margin. There's another aspect of Presort that we're getting into in a deep way and that's Bound & Packet mail, think of kind of heavy flat, if you will, calendars and things like that, that get mailed. We're launching this in a more material way here in the second half, and we think that will contribute to both growth and it leverages our investments in the network, our investments in people, our investments in the management team. So I like this business. I think it will continue to improve and operate within a long-term model range.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

And my last question is for Cross-Border Ecommerce, what's your view? Do you think that the current run rate is where it's going to stay at? Or do you think there could be any positive changes there?

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

For Cross-Border there's a certain sensitivity here, obviously, to changes in U.S. dollar. And if it weakens or strengthens, it does impact demand. So we expect an improved performance in Q4 versus the previous quarter as a result of the holiday season. And I think it's important to note, while it didn't have a great revenue quarter here this quarter, it is being recognized in the industry. For the second year in a row, we earned the #1 ranking for international commerce and fulfillment technology by the Internet Retailer 1000 Vendor Report. And that is a survey of 1,000 top online retailers. So I think our offering is strong in the Cross-Border. And it's not entirely dependent on currency but currency has a big effect, and that's why we have a multifaceted portfolio within Global Ecommerce. So we're confident that, that will improve here in Q4.

Operator

Your next question comes from the line of Shannon Cross from Cross Research.

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

The first one is, I'm curious -- and maybe there's nothing really to think about yet because it's a ways off. But the talk about renegotiating the postal treaty, would -- how should we think about that in terms of volumes? I mean, it appears that it would make it cheaper for us to maybe ship, I don't know, or more expensive then, or ship in. Just your thoughts there.

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

Yes, if you're referring to the UPU, Shannon, we don't really have any volume that goes through that particular program. So it's -- I think it's important for the Postal Service, it's not so important for Pitney Bowes.

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

Okay, so it won't make yours more competitive I guess. And then from a divestiture standpoint, you've made several divestitures and improved your balance sheet, which have been definitely the correct decision. Now that you're appearing to stabilize some of the mail meter little business or the mail meter business in general, does it make sense to maybe look even further strategically between the 2 businesses? I don't know, maybe you could just talk a little bit about why better together versus separate at this point? Because again, with the growth you're seeing in e-commerce, clearly that's not being reflected in your multiples. So what are your thoughts?

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

Yes. So it's a good question and one we think about a lot. The first thing that I would say is, as we contemplate divestitures in particular, we use the same criteria that we have started out with, plus the one that we added with Imagitas. So that is strategically coherent acceptable returns and leaders within the marketplace. And then the one we had Imagitas was that it's not worth more to somebody else than it would be to us. So as you think about Global Ecommerce or Commerce Services and SMB in particular, the strategic coherency is around shipping and the assets that they share, particularly the API technology but also Commerce Cloud and others. So we think in the context of the first 3 criteria, the portfolio makes sense together. As it relates to the last point about more to us than to somebody else, that's one that we continually look at. We'll do what we've done in the past, and as we conclude an asset's worth more on the market to the market than it is to us, then we'll make the correct shareholder decision. So it's one that we continually – it's a decision that we continually look at and revisit.

Operator

You're next question comes from the line of Anthony Lebiedzinski from Sidoti & Company.

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

So I wanted to follow-up on a previous question in regards to Global Ecommerce. And Marc, are you prepared to say that how much -- in terms of the -- your answer about scale, is there a particular revenue run rate that you need to get to, to get to the scale that you think you need to get, to better leverage that business?

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

Yes, we think of it in terms of parcels. So and reason parcels are important is, if you think about the economics of that business, it's driven by the type of scale that you provide to carriers, USPS, UPS, Federal Express. And the more parcels you can ingest in their network, the better economics you get. So I would say that we're -- as we contemplate our 3- to 4-year plan, we get to the desired economics. So we were asked a question before about when we get to profitability, so we think profitability is sooner, the desired economics, we believe within our long-term plans. I'm not going to pin us down to a particular point in time. But candidly, it's why we're as interested in acquisitions as we are because if you can find an acquisition that gets you there sooner versus later, that's accretive. So whether it be big acquisition or small acquisition, that's kind of our interest. I'd say as you look at our evolution in that business, and I'm not sure how long you've been following the company, how the company evolved in Presort is kind of how we think about it. So you think about an anchor acquisition or a couple of anchor acquisitions and then a bunch of tuck-in acquisitions that become immediately accretive. But it's -- that's kind of the economic formula that we're contemplating. We'll talk more about that early next year as we get into Analyst Day.

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

Okay. And also as far as Newgistics, so earlier this year you co-located one of the Newgistics operations within an existing Presort side. Can you give us an update on that? And should we expect additional sites like that to be opened?

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

Sure, Anthony, thanks for the question. Newgistics here as we look, we've accelerated the growth in the second half of the year growing 19%. This year, we've opened 4 new facilities, remember they had 9, we've consolidated 2. So when you talk about investments into those business, the good example of launching these, including our Super Center in Greenwood, Indiana. And we have to set up all the transport, all the labor, and all the volume is not there yet, and we think we're well positioned for peak. But we're going to continue to invest and I mentioned before that when you look at part of the benefits to Presort is the transport cost of combining some of these lanes with Newgistics. We see that on both sides of the house. And remember, of the original 9, 8 are within an hour of the Presort facility. So here's a couple examples of where that can truly help us on transport and labor. On transport, you can fill the tracks much cheaper and it reduces the demand for having to go out and use the spot market, which has increased dramatically this year. On labor, the 2 businesses have very different labor profiles and so the peak season for Newgistics, the shipments is, obviously, fourth quarter and returns is mid-December through early first quarter. But Presort busy time of the year is actually in January with all the year-end statements. So we're in a process now of taking the labor force and being able to leverage that labor force to help assist during peak. It leaves us much better positioned this year, candidly, than last year to do that. So we like this combination, and I think you'll see us bring that closer and closer over time. Now why not go faster? Obviously, we have leases of these facilities in both businesses, we're going to go break leases early just to bring these together, but we'll bring those together over time because we see a lot of benefits.

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

Okay. That makes sense. And lastly, as far as the software business, you guys mentioned that there was a timing shift, that some deals shifted from 3Q to 4Q. Wanted to get a better sense of the magnitude of that, and also I would be curious to know what the software sales were excluding the impact or adjusting for the impact of 606.

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

If you take a look at software business in Q3, let's talk about that first, there was a lower level of renewals in this quarter. Remember this business has changed under 606. Even you've sign a renewal deal early that revenue will not showing in the quarter anymore where it used to in the past. So with the lower level of renewals in the quarter that impacted performance. And in Q2, we did have a strong overall performance where we grew 13% on a year-to-year basis. And keep in mind, and we disclosed that last year, in Q3 of 2017, we had a large Location Intelligence deal, which certainly impacted the year-to-year performance. Now there were some bright spots here within software. I think one of the best ones for us is small deals. Small deals grew a healthy 26% on a year-to-year basis. That's double-digit each of the first 3 quarters on a year-to-year basis. So as we look at fourth quarter, this is going to be part -- earlier we had the question of how much does revenue go up on quarter-to-quarter, and let's say it's in the low to mid-double digits that it increases on a quarter-to-quarter basis and software will be a part of that. There's more renewals in Q4, there's a bigger large deal in Q4, and we expect to see that continued performance with small deals. In terms of 606, you'll see this upcoming in a Q, it had a smaller impact benefit here in Q3 than it did in the prior quarters. And then obviously, that will wrap around as we head into 2019.

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

I'll just make one additional point because I think it speaks to kind of how 606 affects market dynamics. If you go back to the third quarter of last year, we had the large deal that was pull-ahead renewal. So typically, when you're running a software business, before 2018, you look at the inventory of deals in the quarter and you make a judgment about is that -- inventory is sufficient to do what you need to do within the quarter and you act accordingly. So last year as we looked at the third quarter, which is always a difficult quarter for any software vendor just because of the seasonality that business works, we were able to pull ahead a large renewal. As you get into 2018, that option is no longer available to you, so...

Stanley J. Sutula - *Pitney Bowes Inc. - Executive VP & CFO*

Well, you can sign it, you just can't write it.

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

Yes, I mean, so you can -- yes. So the economics are a little bit different. So it's -- 606 is an interesting thing, it changes little bit in terms of how you think about bringing your deals forward. And I suspect over time it will even out but it makes the business a little bit lumpy right now.

Operator

And at this time there are no further questions. I'd now like to turn the conference back to Mr. Lautenbach for any closing remarks.

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

Thanks, operator. Well, listen, let me just close with a couple of high-level remarks and some of these I've made before. If you think about Pitney Bowes over the last couple years it's a company that's growing the top line. It has reduced our expense substantially. It has reduced debt and the same time we have made significant investments in innovation and our capabilities. As we look forward to the fourth quarter and 2019, you can begin to see those decisions paying dividends. So we like how we're positioned as we go into the fourth quarter. More work to do for sure. But fundamentally this is a business that's been repositioned for a healthy and prosperous future. So more work to do. We'll talk in 90 days, and we'll update you then. Thank you.

Operator

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