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PBI - Q2 2015 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 2Q15 revenue of $881m and GAAP EPS of $0.75. Expects 2015 revenue to decline of 1% to growth of 1% vs. 2014 on constant currency basis and GAAP EPS to be $2.06-2.21 and adjusted EPS to be $1.75-1.90.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning and welcome to the Pitney Bowes second 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; 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 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 most of the points we will discuss during the call. These slides can also be found on our Investor Relations website. Now, our President and Chief Executive Officer, Marc Lautenbach will start with a few opening remarks. Marc?

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

Thank you, Charlie, and good morning, everyone. Thanks for joining us today. Earlier this year, I told you that 2015 was going to be a pivotal year in our transformation. I also told you that we would move forward with the same disciplined focus required for the long-term success of the Company. The objective of our transformation has been and continues to be to create long-term value. In the second quarter, we took several actions to transform Pitney Bowes and to create value. We closed on the sale of our world headquarters building and also closed on the sale of our marketing services business. Both of these transactions are clear evidence of our disciplined focus to unlock the value of our business and to be good stewards of our shareholders' capital. In the case of our marketing services business, it was and is a great business. It fit with our overall portfolio, but was simply worth more to Red Ventures than it was to us. This is a clear demonstration of the kinds of actions we will take in order to create value for our shareholders.

On the other side of the ledger, and I will come back to this later in my comments, we acquired Borderfree. Borderfree the a perfect fit with our eCommerce business and is highly synergistic. Moreover, it positions Pitney Bowes as a clear leader in a fast-growing, multi-billion dollar marketplace. The actions which we took, which built on the work we did during the previous two years, have strengthened our hand. They've improved our competitive positions in key markets and made us more focused and more efficient. As a result, we are now at an inflection point in our transformation. The cumulative effects of the steps we have taken over the past 30 months will begin to fuel sustained long-term growth and profitability. In terms of the second quarter, Mike will give you the specific details, but I would characterize the results as mixed. Our presort business continued to perform very well, our North American SMB business continued to improve, and our North American software business executed well. Conversely, our eCommerce business growth rates were negatively affected by the strong dollar and I would say our overall performance in Europe was below what we had expected. And in general, the strong dollar continued to have a negative impact on our top and our bottom line. In the near-term, the progress we made in the first half of the year sets us up for improved performance in the second half. As for the longer term, we will talk more about that at our analyst day in September.

Let me now comment on the progress of our long-term strategic initiatives. First, the stabilization of our mail business, in the second quarter, the decline of our SMB business continued to moderate and is now approaching the levels of performance we're experiencing before we adjusted our go-to-market; albeit with a much more efficient and effective expense structure. We expect to see continued progress in our North American SMB business in the second half of the year. Likewise, the progress we have made in our North American SMB business reaffirms our conviction that we are on the right track with the changes we have made in Europe, although clearly the changes have caused temporary disruptions.

Also of note, we made an important product announcement. On July 15, we announced Relay multi-channel communications suite. Relay is a major step forward in providing small and medium businesses with an integrated solution that creates communications for both digital and physical channels. This product announcement is more than it may seem on first blush, for a couple of reasons. First, this product announcement is an example of innovation in our legacy business. This announcement is the first of several we are planning. Second, and perhaps even more importantly, it's a great example of taking our digital capabilities and then driving them into our legacy business and ultimately, our 1.5 million clients. Initial responses from our clients from around the world have been very positive and we believe this product will provide a lift to our business in the second half of the year.

More and more, our focus is how we make our individual businesses accretive to one another; much more on this as we get to analyst day. Second, our continued efforts to drive operational excellence into our business. As I have always said, operational excellence is only important if you can find the evidence in your balance sheet, your income statement, or your work with clients. We're seeing progress in all these measures. Our SG&A as a percent of revenue continued to improve in the second quarter and our debt levels were $245 million lower than a year ago. The net of this is our gross and net margins continue to improve towards historically high levels. Also of note, we removed two layers of management and structure in our European SMB business. We believe these actions will reduce bureaucracy, improve our speed and accountability, and obviously, will reduce our overall expense structure. Finally, we continued to make progress on our systems projects. We exited an important phase of our systems test and entered into the next phase of testing with a focus on implementing in Canada later this year. This project will provide substantial benefits to our business, unlock value, and provide the right platform to better serve our clients. The net impact of all of these changes is that we are dramatically simplifying our business and building an effective and efficient platform for growth.

Finally, growing our business through digital commerce. The big highlight from the second quarter for this strategic initiative was the acquisition of Borderfree. Mike will give you the specifics, but this is one of the most exciting acquisitions I have been involved with. Borderfree has developed great capabilities for retailers and coupled with our best in class capabilities for e-marketplaces, the two businesses are highly synergistic. In addition to providing more complete capabilities to the market, there are substantial synergies with the respective costs and expense structures. Going forward, we have best of class capabilities, first mover advantage in a multi-billion dollar marketplace growing at double digit-plus rates. Again, we will talk more about this business at analyst day.

And once again, our shipping software business had a good quarter, growing at double-digit rates. We're using our SMB channel to sell the software product. This is another example of how we use our capabilities in one business to make another business better, one business being accretive to another business, and using our global distribution to take our product quickly around the world.

Also in the second quarter, we consummated a smaller transaction that probably flew under the radar screen. This acquisition was within our communications engagement software business. We acquired a small Company that does personalized video billing. The acquisition increases the attractiveness of our core business and provides a very important capability to businesses that are creating bills. The short-term results have been very encouraging. We've built a strong pipeline around the world and this is a great example of buying a capability that is accretive to our core business.

Our software business had mixed results in the quarter. We did have a difficult compare as we landed a future large transactions last year in the second quarter. In the second quarter of this year, we did not have the benefit of particularly large deals and our software business in Europe performed below our expectations. I expect these dynamics to improve in the fourth quarter.

Finally, one last comment on our marketing services business, at one level it would have been easier to retain this business. It was a good business fit, we made substantial improvements to our business in the last two years, and it was clearly helping our top and bottom line. That said, as stewards of our shareholders' capital, selling this business was the right thing to do.

Today, we're also updating our guidance to balance a stronger outlook for the second half with results through the first half of the year. A key reason for our first-half outcome was the deleterious impact currency had on our eCommerce business. We expect these disruptions to be temporary and we're very encouraged by the deals we have signed since April and the pipeline for the second half of the year. Bottom line, we expect the currency issues to stabilize and this business to be back on the growth path going forward. Therefore, we are adjusting our full-year revenue guidance to minus 1% to plus 1%. Mike will provide greater detail on our second half outlook in his remarks. The important point is we will always choose the creation of long-term shareholder value over the more expedient path. So let me summarize. While I would characterize the second quarter and to an extent, the first half results, as mixed, we do believe the second half of the year will be on a much different track. And most importantly, we will continue to take the actions that drive long-term value to our shareholders. We have not and will not take the expedient path to optimize a quarter or even a year. It would certainly be easier to avoid making the necessary investments in our systems, investments in our brand, forego disruptions in our go-to-market to protect a quarter, or to retain a business that was contributing to our quarterly results. That is not what this management team, this story, or this Company is all about. As we get to the back half of this transformation, the value and the benefits of our work is clearly in sight and my conviction and resolve about our path going forward is stronger than ever. I will now turn the podium to Mike.

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

Thank you, Marc, and good morning. As we said when we originally provided guidance, 2015 is a transition year on the Company's major transformation to unlock additional value for shareholders and clients. As Marc noted, we are now at an inflection point in the business. During the quarter, we completed two significant transactions, closed a number of open items, continued to streamline operations, and we saw our North American mailing revenue further stabilize as a result of our go-to-market changes. Accordingly, I'll spend a little more time this quarter delayering our results to clarify our operational progress and how we are positioned for an improving outlook beginning in the second half of the year. During the first half of this year, we remained focused on three key objectives: to stabilize mail, growth digital commerce, and improve operational excellence. In North American mailing, we experienced a slowing rate of decline in revenue, which was the lowest rate of decline in the last five quarters. Because of this trend and as the sales force becomes more productive, we have higher confidence of continued improvement in revenue trends for this segment going forward. Globally, the go to market transition is complete in most of our major markets and we are now implementing our transition in France. We expect these markets to improve in line with our North American experience. Additionally, we've completed several changes in our geographic footprint to exit low margin countries, the impacts of which will annualize in the second half of this year. We will continue to evaluate the best markets to maintain a direct business presence. As a result of these and several other actions we have taken, we have significantly reduced our cost structure throughout the business, which has improved the Company's overall margin, while at the same time helping us to operate more efficiently. We have yet to recognize the full benefits of some of these initiatives.

While we are seeing SG&A benefits of go-to-market changes across the portfolio, we intend to leverage these new selling capabilities with new value propositions. Over the past several weeks and months, we have brought to market several new products and services across our businesses that allow us to bring our technologies and platforms to different segments of our client base. As Marc mentioned, we recently launched a SaaS-based SMB Relay communications hub, which leverages our production mail document security capabilities and also introduced our personal interactive video solutions for high-volume mailers. We'll discuss these and other product plans further at our analyst day on September 16.

We've also taken significant actions to reposition our portfolio, focusing on high growth opportunities in the global digital commerce markets. We exited our marketing services business, for which we got good value, and reinvested the proceeds in Borderfree, which significantly enhances our capabilities and positioning in cross-border eCommerce. In addition to our operational progress, we resolved a couple of open items. We sold our former world headquarters building, freeing up approximately $40 million of capital, and reached a settlement in principle to resolve a previously disclosed outstanding matter with the Department of Justice. We have also made substantial progress on our ERP program and are preparing for an initial pilot.

We accomplished a lot in the second quarter. Our path forward is clear on how we will improve our operational performance. Additionally, we have a stable capital structure that gives us flexibility in our capital allocation decisions. So with that, let me break down our second quarter results for you. Once again, currency and the businesses we divested in Europe last year had a meaningful impact on the comparison of our reported results for the quarter. During the quarter, currency translation adversely impacted our revenue comparisons by $36 million or 4% and our earnings per share by nearly $0.02. Year-to-date, currency reduced revenue by $71 million and earnings per share by $0.03. These impacts are a result of the rapid strengthening of the US dollar over the last year. Beyond the translation effects, currency also continued to impact the volume of US outbound cross-border purchases in our eCommerce business. Additionally, the divested revenues related to the strategic actions in Europe from last year adversely impacted our revenue comparisons by more than $12 million or about 1%. Adjusting for currency and the businesses we divested in Europe last year, revenue would have declined about 3%. These headwinds will annualize in the second half of the year.

Let me now take you through the details of our income statement and then I'll review our business segment results. As a reminder, the Company's second quarter earnings-related documents, which include our press release, financial statements, and slides, can be found on our Investor Relations website. Also note, we revised our segment reporting to reflect how we are now operating the Company. The digital commerce solutions segment group is now comprised of our software solutions and global eCommerce segments. The global eCommerce segment results include our cross-border and shipping businesses. A new segment called other includes the results of our recently divested marketing services business. All other segments remain unchanged. This will enhance investors' ability to follow the performance of our key digital commerce growth initiatives going forward. The reclassified segment reporting, on a historical basis, can also be found on our investor relations website.

Turning to the income statement, revenue for the quarter totaled $881 million, which was a decline of 4% on a constant currency basis and 8% on a reported basis. Total revenue declined 3% compared to the prior year when adjusted for currency and the businesses we divested in Europe last year. On a constant currency basis and adjusted for the divested revenues in Europe, revenue declined 4% in SMB solutions and 2% in enterprise business solutions. Revenue grew 4% in digital commerce solutions, driven by growth in global eCommerce. Revenue declined 26% in the other segment, as a result of the sale of marketing services during the quarter. Reported revenue, including the significant impact of currency during the quarter, declined 11% in SMB solutions, 5% in enterprise business solutions, and was flat in the digital commerce solutions and declined 26% in other.

SG&A this quarter includes a one-time, stock-based compensation charge of $10 million, directly associated with the Borderfree acquisition. SG&A also includes one month's worth of amortization of Borderfree-related intangibles of about $1 million. Adjusting for these items, SG&A declined $34 million from the prior-year and as a percent of revenue, improved by about 80 basis points. Net interest expense, which includes financing interest, was $39 million, which was a decline of more than $3 million when compared to the prior year. Adjusted EBIT was $180 million and adjusted EBIT margin improved to 20.4% or a 70 basis point improvement over prior year, despite the inclusion of currency impacts, loss of one month of Imagitas income, and amortization of Borderfree-related intangibles. Adding back depreciation and amortization, adjusted EBITDA was $223 million. The effective tax rate on adjusted earnings was 32.5% compared to 33.4% in the prior year. The lower tax rate this quarter is mostly due to the mix of earnings.

Turning to earnings per share, despite the lower revenue, we were still able to deliver adjusted EBIT margin improvement and earnings per share in line with our expectations. GAAP earnings per share were $0.75 for the quarter. Adjusted earnings per diluted share were $0.45. Included in adjusted EPS is $0.02 per share of negative impact from currency. Adjusted EPS excludes $0.44 per share of other income due to the net gain from the sale of Imagitas, $0.05 per share of other expense for transaction costs and fees related to the Borderfree and Imagitas transactions, and the settlement in principle to resolve a previously disclosed outstanding matter with the Department of Justice, $0.04 per share of compensation expense related to the vesting of options associated with the Borderfree acquisition, and $0.04 per share for restructuring and asset impairment charges, including the sale of our former world headquarters building. A reconciliation of our GAAP EPS to adjusted EPS can be found in our earnings press release and earnings slides.

Looking at free cash flow and the balance sheet, free cash flow during the quarter was $84 million and $96 million on a GAAP basis. In comparison to the prior year, second quarter free cash flow was lower, primarily due to timing of working capital requirements, lower reserve account deposits, and less of a decline in finance receivables. At the end of the quarter, we had $3 billion of debt, which was about $245 million lower than the prior-year, and we had $800 million of cash and short-term investments on the balance sheet. Average outstanding borrowings during the quarter were about $319 million lower than the prior year. The average interest rate this quarter was 5.27%, which was flat to the prior year. During the quarter, we returned $47 million of cash to our shareholders in the form of dividends, made $9 million in restructuring payments, and received approximately $40 million of cash related to the sale of our former world headquarters building. Also, we have $100 million of share repurchase authorization remaining. As share repurchases have become a higher priority in our capital allocation strategy, we expect to begin utilizing this authorization in the third quarter and intend to complete the share repurchases that are currently authorized by the end of the year. Also, at the end of the quarter, we continued to have $100 million in commercial paper outstanding.

Turning to our business segment results, in North American mailing, revenue for the quarter was $357 million and EBIT was $159 million. Revenue declined 3% on a constant currency basis and 4% on a reported basis, while EBIT increased 2%. The decline in revenue was the lowest rate of decline in five quarters, reflecting a continuation of the stabilization in results. Equipment sales declined at a low single-digit rate, as the disruption from the change in go-to-market subsides and as the sales organization becomes more productive. Recurring revenue streams trends were in line with prior quarters. EBIT margin was 44.7% and improved 250 basis points versus the prior year, due to continued benefits from the mix of business, organizational streamlining, and other ongoing cost reduction initiatives. In international mailing, revenue for the quarter was $111 million and EBIT was $14 million. Revenue declined 15% on a constant currency basis and 28% on a reported basis. Revenue declined 8% excluding currency and the divested revenues I mentioned earlier. During the quarter, results continued to be impacted by the implementation of the go-to-market initiative, with most of our major markets now complete. France is out of consultation and is now implementing its go-to-market transition. Revenue comparison was also adversely impacted by the timing of postal rate changes in a number of countries. EBIT margin was 12.8%, which was a decline of 450 basis points versus the prior year, due primarily to lower mail finishing equipment sales, the impact of currency on some supply chain costs, and the timing of postal rate changes.

Turning to the enterprise business solutions group, in production mail, revenue for the quarter was $98 million and EBIT was $10 million. Revenue declined 7% on a constant currency basis and 13% on a reported basis. Revenue would have declined 6%, excluding currency and the divested revenues in Europe related to this segment. The decline this quarter was due to lower support services revenue and fewer equipment sales in Europe and Asia. US equipment sales grew as a result of an increase in the number of inserting equipment installations. EBIT margin was 10.3%, which was an improvement of 90 basis points versus the prior year, due to favorable geographic mix and higher-margin equipment sales, as well as ongoing cost reduction initiatives.

In presort services, revenue for the quarter was $114 million and EBIT was $24 million. Revenue grew 2% on both a constant currency and recorded basis. Revenue benefited from higher volume of first-class mail processed versus the prior year. EBIT margin was 20.7%, which was an improvement of 60 basis points versus the prior year, due to revenue growth and ongoing operational productivity initiatives.

Turning to the digital commerce solutions group, for the software services segment, revenue was $99 million and EBIT was $16 million. Revenue declined 4% on a constant currency basis and 9% on a reported basis. Revenue was impacted by lower licensing and services sales in Europe and Asia Pacific, which offset growth in licensing revenue in the Americas. However, as a result of go-to-market initiatives, as well as new product introductions, the business is signing on a larger number of quality, mid-size deals, which will reduce dependency on one-time large deals and drive new client acquisitions. We are seeing this consistency and efficiencies in the business model playing out in substantially improved profitability in the software business. This, along with focused cost reduction initiatives to streamline the operations, resulted in an EBIT margin of 16.3%, which was an improvement of 720 basis points versus the prior year.

For the global eCommerce segment, revenue was $78 million and EBIT was $3 million. Revenue grew 15% on a constant currency basis and 14% on a reported basis. Revenue includes the Borderfree acquisition late in the quarter and expansion of the eBay UK outbound cross-border service. However, outbound package shipments from the US continue to be pressured by the strong US dollar. Shipping solutions revenue continued to strengthen as a result of additional new clients. The shipping business is also benefiting directly from sales and improvements in the SMB channel that markets its solutions to small and mid-sized companies. EBIT margin was 3.9%, which was a decline of 160 basis points from the prior year, as a result of ongoing operational costs and integration investments related to the Borderfree acquisition, as well as continued investment in the Company's cross-border platforms. Within the other segment, revenue was $25 million and EBIT was $6 million. Revenue declined 26% on a constant currency and reported basis. As a result of the sale of the marketing services business in May, we recognized only two months of reported revenue this quarter versus a full quarter of revenue in the prior year.

That concludes my comments on our financial performance for the quarter. Now I'd like to discuss our annual guidance and provide some insights on our outlook as we continue to drive the transformation of the Company. As I mentioned in my opening remarks, our accomplishments in the second quarter are expected to help drive improved results in the second half of the year. We expect that consolidated revenue growth on a constant currency basis will improve in the third quarter from the current trend, with more significant growth in the fourth quarter; both driven by further stabilization of our mail-related businesses, benefits of new products and services, and increased growth in our global eCommerce solutions. The fourth quarter is also expected to benefit from growth in software solutions and the annualization of the impacts of the European market exits in 2014. Based on year-to-date results and our expectations of constant currency growth of 1% to 5% in the second half of the year, we are adjusting our annual revenue guidance to a decline of 1% to growth of 1% when compared to 2014 on a constant currency basis. We are increasing annual GAAP EPS guidance to be in the range of $2.06 to $2.21. This guidance includes the following: $0.44 per share of other income related to the net gain from the sale of Imagitas, $0.05 per share of other expense for the settlement in principle of an outstanding matter with the Department of Justice, and transaction costs and fees related to the Borderfree and Imagitas transactions, and $0.04 per share of restructuring and asset impairment charges, $0.04 per share of compensation expense related to the vesting of options associated with the Borderfree acquisition, $0.06 per share of reduced earnings as a result of the sale of Imagitas, and $0.04 per share of reduced earnings related to Borderfree, which principally includes amortization of intangibles and integration investments net of early savings from expected synergies.

We are also updating annual adjusted EPS and free cash flow guidance, solely to reflect the impacts of the Borderfree acquisition and Imagitas sale. Adjusted earnings per share is now expected to be in the range of $1.75 to $1.90. Included in adjusted earnings per share is the assumption that currency will have a $0.05 per share negative impact for the full year. Free cash flow is now expected to be in the range of $450 million to $525 million. This adjustment of $25 million simply reflects the impacts of the Borderfree acquisition and the Imagitas sale. Bottom line, our adjusted earnings outlook remains unchanged, except for the direct impacts of the two transactions. While we have included a modest level of synergies this year related to the Borderfree integration, as well as the investments to realize benefits, we are focused in the near-term on driving a successful holiday season. That said, we see leverage across these highly complementary eCommerce businesses and we are targeting a run rate synergy benefit of $25 million to $30 million in 18 months, through the elimination of public company costs, logistics leverage, and the consolidation of infrastructure.

We'll provide greater details regarding our eCommerce growth strategy and related growth prospects at our analyst day in September. Again, as Marc and I both noted, we view this quarter as an inflection point. We've taken a number of actions and made decisions that we believe will keep us on track to increase the long-term value of our Company. We're confident that our performance, our products, and our portfolio actions will deliver on the strategic initiatives we laid out more than two years ago. That concludes my remarks. Operator, can you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

A few, if I could. The first is, Mike, could you just walk us through the components of the adjusted EPS? Guide down there's a number of things in the GAAP adjustments and just trying to make sure we understand the components to the adjusted EPS change in guidance. Thanks. And then I have a follow-ups.

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

Sure. In terms of the adjusted EPS guidance forward, there are really simply two items that are adjustments to our prior guidance. One is $0.06 related to the Imagitas business sale. That would be the earnings of that business in the second half of the year. And you would note that, in that business, typically, there a big third quarter because of the move season around the summertime, but that specifically relates to their earnings. The second is related to the Borderfree acquisition of $0.04 adjustment.

That really reflects, principally, the amortization of the intangibles that are related to the acquisition. The amortization for this -- basically, for the seven months of the year that we would own the business. There's net about an additional $0.01 related to investments associated with integration of the business offset by some early synergies associated with the business. So the net change is $0.10 in the adjusted earnings EPS range and that's specifically related to those two items.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. Just as a housekeeping question in that context, I believe last quarter you had talked about an incremental (inaudible) to the old guidance, incremental expense for ongoing ERP and marketing programs. Has that changed at all or -- it wasn't called out this quarter, but just want to make sure that nothing has changed there.

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

It continues to be in our base. Some of the, obviously, components vary from quarter to quarter. We continue on track with both of those initiatives and we'll continue to incur costs related to those in the second half, but those are in our guidance assumptions.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Okay. Got it. Thanks. And then the 1% to 5% constant currency growth for the second half of the year is pretty strong. I realize there's some of the video stuff ramping and there's some easy compare stuff in there, as well. But generally speaking, do you have more confidence now, based on what you've seen in the pipeline, that what has been your constant currency guidance, which I believe has been 1% to 3%, is a reasonable way to think about the normalized run rate of the business once you get through all the normalized model, comping this and transacting that?

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

The short answer is yes. We do think that's a reasonable going-forward expectation. The reason we are confident in the second half projections really breaks two categories. First of all, from a macroeconomic perspective, as you look around the world, really, the expectations for higher GDP growth, that will inevitably help us. Secondly, we do think some of the effects of currency will either begin to wrap and/or stabilize. So you're in, presumably, a better macroeconomic environment.

The part that gives us the most confidence, however, is what's within our own grasp and I'll point to a couple of topics. First of all, as you look at our channel maturation for SMB in North America, as well as Europe, ex-France, you're another quarter along. I expect North America to be more or less back on the horse in the second half of the year. And Europe SMB, ex-France, again, to be performing more in line with our long-term expectations in the second half of the year. The pipeline indicates that what we've seen in the business so far indicates that, so that's point one.

Point two, as it relates to eCommerce in particular, if you look at the clients that were signed in the second quarter coupled with what's in the pipeline, you can touch and feel those revenue streams as they come online. So that gives us a high degree of confidence there. And then finally, you mentioned personal video, that will help. We've got the new product announcements that will help. So we've got a lot of things that are in flight, currently in flight, that are already out there that will begin to help in the third quarter and help substantially in the fourth quarter.

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

I just wanted to add one thing to reinforce the point I made earlier, which is we are talking first half/second half, but obviously, there are factors that will impact the third quarter and then I highlighted some factors that will be more significant in the fourth quarter. So we expect a progression the third quarter to be better than the second and the fourth to be better than the third, based on the rollout of these opportunities.

Ananda Baruah - *Brean Capital, LLC - Analyst*

That's really useful, guys. One last quick one here, can you just put a little bit greater context around how you guys envision ongoing improvements in North American SMB? It sounds like you have two things working for you now. You have the go-to-market programs in place, but then you guys also have the new products that have rolled out. And if you could just -- I know you're going to give guidance on the analyst day on this, but just give us some sense of how material each of those things could be?

And second thing on eCommerce is, Marc, your comments on the call just now about new wins in the business, that you have line of sight to revenue, is that legacy Pitney eCommerce or do some of that also include Borderfree? And then I'll cede the floor. Thanks.

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

In reverse order, it's both, both legacy Pitney Bowes, as well as Borderfree, had some very important signings in the second quarter, which will begin to deliver benefits as we get into the back half of the year, specifically December, as we get to the fourth quarter and the holiday season. As it relates to North American SMB, if you look at the original guidance that we had talked about in terms of our long-term model, we had set a goal post of between minus 1% and minus 4%. In the second quarter, ex-currency, we were at minus 3%.

As Mike indicated, that decline was the best performance that we had in five quarters parenthetically, it's the second-best performance we've had since I've been here. That said, we do see continued improvement in that business in the second half of the year. Our objective has been and continues to be to operate on the right side of that football field between minus 1% and minus 4%. We're not there yet, but we're getting closer and it's in our sights and I would say the product announcement will help and the channel maturation clearly helps, as well.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Thanks a lot, guys. Congrats.

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

Can you provide some additional details on how the sales [works] process is progressing in France and what the key issues are there and when you expect growth trends there to stabilize?

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

Sure. As we talked about last quarter, in terms of France, there's a works council process that you must work through. We completed the consultation phase and we're now in the transition phase, meaning we are moving resources into the new model. We are hiring in new sales people, in some cases, and we expect all that to be in place by September, so that as we finish the third quarter and enter the fourth quarter, we will have that program fully in place.

George Tong - *Piper Jaffray - Analyst*

Got it. Turning to International SMB more broadly, now that the go-to-market changes are largely complete, do you expect revenue growth to revert back to levels prior to the restructure and what's the timeline?

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

In terms of international, clearly we expect there to be quarter-to-quarter improvement in the growth rates as we go forward. As we talked about, different countries are in different sort of stages of completion on this. I would say the UK, through the first half of the year, has already seen stabilization in their revenue. Germany is a little bit behind that, but fully completed in the transition and now really enhancing productivity.

I would say the Nordics are in the same place and then France really rounds out the major markets in Europe. So we do see that probably the biggest challenge for us is behind us in terms of the international business and we'll look for a quarter-to-quarter continued improvement in that as the organizations settle in and drive productivity.

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

One other point that I should have mentioned, just an add-on to Mike's, we obviously wrap on the divestitures in the international markets as we get into the second half of the year. So we'll have a little bit of that in our results in the third quarter, but fourth quarter's pretty clean and that's been a $12 million or so headwind each quarter. So that's a substantial to international mailing, but it's not immaterial to the overall portfolio.

George Tong - *Piper Jaffray - Analyst*

That's helpful. And lastly, can you talk a little bit about the channel synergies that you're already starting to see between Borderfree and your existing eCommerce business? How do you frame up potential revenue synergies from complementary product and sales channels between Borderfree and eCommerce?

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

Great question. So if you were to reflect back on Mike's description of the synergies, what you observe is those are all cost and expense that he described. So I would parenthetically comment that gives you a high degree of confidence that those synergies that were outlined are something that we have within our grasp. Importantly, we didn't predicate those synergies on revenue topside opportunities. That wasn't because we didn't see them. It was just because we wanted to base the synergies on what we could describe with a high degree of confidence.

The revenue synergies will come from, principally, the following. If you think about our respective development and innovation road maps, there was a reasonable amount of overlap in what they were trying to innovate around and what we were trying to innovate around. As you go forward, you'll be able to rationalize those respective development plans, so you'll be able to innovate even faster in the respective marketplace, in the respective markets, the marketplaces and retailers.

So I think that's principally where we see the opportunities. We see this as a very exciting space to be able to innovate for our clients and to solve a real life problem. I think with the two leaders in this very nascent market together, there's a lot of topside opportunity. We didn't bank on it in the business case, but it's not because we don't think it's there.

George Tong - *Piper Jaffray - Analyst*

Great. Thanks very much.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

I just had a couple. The first is, are you done with divestitures and acquisitions at this point? Do you think you've got the assets or are there any other pieces you might be able to spin off?

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

The questions and answers from the first quarter and that was the same question you asked in the first quarter. You're very consistent. Good to be able to count on some things in life.

Shannon Cross - *Cross Research - Analyst*

I try. I try.

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

I'll give you the same answer, in that value in the marketplace has continued to evolve; therefore, your portfolio needs to continue to evolve. I always articulated two criteria for staying in the portfolio. One was you've got an acceptable level of return and the second was the strategically coherent. I guess what marketing services taught me was I really should have articulated a third criteria and that is if a business is worth substantially more to someone else than it is to you, then it's the right thing to do for your shareholders to consummate that transaction.

So as I look at our portfolio today, I like how everything fits and clearly, they're on the path to making acceptable returns. I will not preclude those dynamics changing and it's certainly hard to predict the dynamics of how one enterprise sees values versus how you see it. In terms of acquisitions, we continue to look at our development plans for the next five years and we look at make versus buy decisions.

We've got a series of, I would characterize as mostly smaller, types of transactions that we look at and if we can get those for the right price, we'll do it. But again, I do not see, in our future anything that would be characterized as acquisitions that are outside of our strike zone.

Shannon Cross - *Cross Research - Analyst*

Great. My second question is just with regards to the share repurchase, which you say you're now going to be completing by the end of the year, do you look at that as something, from an ongoing standpoint, you want to keep a program in place going forward? It goes into cash usage, which you just talked about acquisitions, but I guess how do you think about cash returned to shareholders going forward?

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

I think in terms of cash returned to shareholders, as we've really done a lot of work on our balance sheet, as we look at the balance of growth opportunities in the business, the additional leverage we should get as we go forward, and implement our impact program, we feel good about the free cash flow profile of the business as we go forward. So we see return of capital as an ongoing component of our capital allocation program, as we move forward. That said, obviously, if there's a particular opportunity for reinvestment in the business, we're always going to look at that, as well, and its total impact on shareholder return.

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

You can discern from our actions, where our view is of how to drive shareholder value, at this point in time. But it's always predicated on what's going on in the marketplace, what your stock price is at, what other opportunities you have for that cash. So what you're seeing is our view of that dynamic right now and I believe that will continue for the foreseeable future, but it is a fairly dynamic market.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you very much.

Operator

(Operator Instructions)

Glenn Mattson, Ladenburg Thalmann.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Question a little bit more on the Borderfree. I was just curious, when the eCommerce business really took off a couple years back, there were occasional references to the idea that there may be other very large partners out there beyond eBay that would also benefit from this service. Is part of the extreme upside case on the Borderfree acquisition part of the idea there that perhaps this could help you finalize or close some of those larger deals with larger partners?

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

I'll say a couple things. First of all, the legacy Pitney Bowes business made some reasonable progress on that front in the second quarter. We'll talk more about that as we get into the back half of the year. I would say, more importantly, that going forward, a combination of the two businesses provides the possibility of more compelling value propositions to our clients.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Okay. Great. And then I think I know the answer, but just to check the box, do you anticipate any disruption at all from the eBay split up with PayPal?

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

There's obviously been an ongoing working relationship and dialogue with eBay and so that's continued throughout the process that they've gone through and we would expect that to remain a good working relationship.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Right. Great. Okay. Thanks, guys.

Operator

At this time, there no additional questions in queue. I will turn the conference back to our presenters for any closing comments.

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

Thank you, operator. I'd like to close on three points. First of all, I'm not terribly pleased with how we executed in the quarter. There were some bright spots, North American SMB did better presort continued to do reasonably well, North American software business performed reasonably. That being said, on balance, we should have done better and we are taking actions to improve our execution as we get into the second half of the year. The second point, I think it's the more important point, is that we really made substantial progress on our long-term strategy in the second quarter.

The acquisition of Borderfree, I believe, will be game changing with a market leader with first mover advantage in a very substantial and fast-growing market. Also worth noting, and we haven't talked a lot about this, but we have a world-class management team in that business right now. That gives me even more confidence. You'll see more about this, but it is something that gives us great optimism.

In our SMB business, the new market approach is settling down and we see clearly within our sights, improvement both in the North American SMB business, as well as international mailing; again, setting us up for the long-term very, very well. Finally, we continue to drive operational excellence and thereby unlock substantial shareholder value and continue to become more efficient, simplifying our business and rationalizing our portfolio.

Significantly, we continue to make real progress with our systems work and as Mike indicated, the benefits are now clearly in our sites. I said in my prepared remarks that our focus is to create shareholder value and we'll always choose the creation of shareholder value over the more expedient path of protecting a quarter or a year. (technical difficulty) strategies are necessarily long-term in nature. I've now been at this about 30 months.

We described this as a three to five-year transformation and you can see as you get to the back half of that transformation, the benefits are clearly within our grasp. As I said at the outset, I am very, very pleased with where we are in our overall transformation and as I said, the benefits are now in our sights. I look forward to giving you a more detailed update at our analyst day in September. Until then, we'll see you. Thank you.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 10 AM today running through August 29 at midnight. You may access the AT&T Executive Playback Service at any time by dialing 320-365-3844 and using the access code of 363198. Once again, that phone number is 320-365-3844 using the access code of 363198. That does conclude your conference call for today. We do thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.