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PBI - Q4 2018 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 4Q18 revenue of $947m and GAAP EPS of $0.24. Expects 2019 constant-currency annual revenue growth to be 1-4% and adjusted EPS to be $1.05-1.20.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes Fourth 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 of Investor Relations.

Mr. David will now begin the call with the safe harbor overview.

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

Cause actual results to be materially different from -- 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 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 us. I will take you through my prospectus on 2018 and our going forward capital allocation and then Stan will take you through the quarter and our 2019 guidance.

I'm pleased with what the team accomplished this year. We grew revenue for the second consecutive year, improved SG&A as a percent of revenue by nearly 600 basis points, reduced debt and increased EBITDA. We put [thin] numbers on the board while overcoming unexpected increases in transportation and labor costs and a much stronger dollar that negatively affected our cross-border business. The fourth quarter and full year 2018 were important moments in the transformation of our company.

In the fourth quarter, we grew constant currency revenue at 4% and also grew EBIT 14% over prior year. The revenue performance was the highest pro forma quarterly growth in 10 years, and 2018 was our second consecutive year of growth, making the last 2 years the best revenue growth performance in a decade.

We clearly have more work to do, but the revenue growth is a clear indication that we have something the market wants. E-commerce shipping is a market that is still early in its maturity, but there is already strong growth, and Pitney Bowes is uniquely positioned to win an important niches in this market.

I'm particularly pleased with the improvement in our software business. The software team had a very good fourth quarter and posted their second consecutive year of growth. While it has taken longer than I would have hoped, our efforts to build new channels in this business are gaining traction.

Let me now take you through the progress we made against our strategic pillars in 2018. First, taking the complexity out of mailing and shipping. In 2018, shipping revenues comprised 32% of our total revenue, and in the fourth quarter, our Commerce Services revenue surpassed the revenue in SMB. On a pro forma basis, in 2018, total shipping volumes in Commerce Services grew 14% over prior year. This brings total label and parcel volumes to nearly $550 million for the year. Of this, the parcels going through our network grew 15% to $140 million. In addition, our API-enabled shipping solutions more than doubled over prior year and is now over a $100 million business. In Presort, we processed over 16.5 billion pieces of mail in 2018, which was an increase of 5% over last year and significantly above the market growth rate.

In the fourth quarter, we continued to build out our distribution network for Commerce Services, and for the year, we added 4 new distribution centers and consolidated 2 others. Much of this investment was done in the second half of the year.

In addition, our facility in Indiana was built out with state-of-the-art technology. It's amazing to walk through the site and to really understand the potential for automation in the rest of our centers. Again, we'll follow the playbook we've successfully utilized to build our Presort business over the last decade as we build global e-commerce. At the same time, we continue to innovate and bring to market new offers and new capabilities, including 3-day guarantee delivery and enhanced U.S. inbound capabilities from China.

In SMB, we have now placed over 70,000 units of our SendPro C-Series since launching this product, and we have nearly 300,000 IoT devices in the marketplace.

Over the last 2 quarters, we've deployed several new applications to our clients, including SendPro Care, Shipping Alerts and Reports and Same Day Delivery, which allows us to drive more value to our clients, largely oriented towards shipping.

The SendPro C-Series has created a whole new set of possibilities for our clients and for PB, and we'll extend that product line in 2019, introducing more models in more countries. By the end of 2019, we will have refreshed 75% of our product line in SMB over the last few years.

In terms of operational excellence, we continue to make solid gains on our execution. To remind everyone, we are working with an outside adviser to benchmark ourselves against companies inside and outside of our industry. We made commitments on spend take out and overachieved on those commitments in 2018.

For the full year, we reduced gross spend by over $150 million against our target of $120 million.

Total SG&A as a percent of revenue decreased nearly 600 basis points. Reducing spend while growing the top line and transforming the business is not an easy task, but we've done it. In addition, our physical inventory position, our backlog and our client metrics all improved in 2018, and our inventory position is at historical lows.

To put our operational excellence initiatives in context, over the last 6 years, we have decreased our SG&A expense by nearly $400 million, reduced our inventory by nearly 80%, and we continue to improve our balance sheet, reducing debt-related obligations by over $1 billion. But as Stan taught me, you're never done as it relates to operational excellence.

Finally, driving economies of scale and experience continues to be central to our strategy. We continue to build scale in shipping, leverage common technologies and our knowledge working with the posts, and we also share infrastructure across the businesses when it makes sense.

Our PB Commerce Cloud is a common delivery vehicle across all our businesses that continues to create significant synergies.

Let me now turn to capital allocation. Six years ago, Pitney Bowes was in markets that were declining and consequently our revenue was declining. Today, roughly half our revenue is coming from markets that are growing. Importantly, we're winning in those markets and growing revenue. Consequently, there are different opportunities available to create value for our shareholders and continue to grow. Therefore, it's appropriate for our capital allocation to evolve. To that end, yesterday, our Board of Directors revised the first quarter dividend to $0.05, coupled with an additional $100 million authorization to repurchase our shares. Assuming a full year run rate of a quarterly dividend, the capital we're returning directly to shareholders remains unchanged in 2019, albeit in a different mix. We believe that Pitney Bowes is undervalued and that share repurchase is an attractive investment at this time.

Our new capital allocation policy provides sufficient flexibility for Pitney Bowes to take advantage of the different opportunities to grow and at the same time still return competitive levels of capital to our shareholders. As we contemplate our going forward capital allocation strategy, we will continue to focus on 3 criteria: first, to provide sufficient flexibility to continue to invest in our business and fund our strategies; second, continue to delever the balance sheet; and third, deliver a competitive return of capital to our shareholders.

I'm confident our capital allocation will unlock value for our shareholders.

In summary, we continue to make progress against our long-term objectives. We've accomplished a lot, but there is still much more to do.

Now I will turn the call over to Stan.

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

Thank you, Marc, and good morning. Let me start by providing an overview of the full year results, followed by the details of our fourth quarter. I'll then take you through our 2019 guidance. Additionally, unless otherwise noted, my statements going forward will be on a constant currency basis when talking about 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 schedules posted with our earnings press release and on our Investor Relations website.

For our full year results, revenue, adjusted EPS and free cash flow performed within the respective annual guidance ranges. Revenue was $3.5 billion, which represents growth of 12% over prior year. On a pro forma basis, revenue grew 1% over prior year. This represents a second consecutive year of revenue growth.

Looking at the composition of our revenue, Commerce Services represented roughly 44% of overall revenue, while SMB was 47% and Software was 10%. Adjusted EPS was $1.16, and GAAP EPS was $1.19. Free cash flow was $318 million, and GAAP cash from operations was $392 million.

Looking at our capital allocation and uses of cash for the year. For the year, we used free cash flow to pay $140 million in dividends to our common shareholders. We paid $53 million in restructuring payments. Our capital expenditures totaled $191 million. Through the year, we made investments in automation, new and existing facilities, our technology, platforms and our products.

At year-end, we had $867 million in cash on our balance sheet. Through the year, we repatriated over $550 million in cash from overseas, the majority of which went to reduce debt. We ended the year with long-term and short-term debt totaling $3.3 billion, which is reduction of $565 million from prior year-end and lower than our first quarter 2017 level.

Let me now take you through the details of the quarter. In the fourth quarter, we delivered $947 million in revenue, adjusted EPS of $0.38 and free cash flow of $153 million. Revenue grew 4% over prior year, which is the best pro forma quarterly revenue performance in a decade. We continue to experience a shift in our portfolio toward growth markets, which is evidenced in the overall growth this quarter.

As expected, our fourth quarter has become the largest contributor to the year, given the growth of our shipping capabilities and the influence of the holiday season on Commerce Services.

For the quarter, adjusted EPS was $0.38, which was a $0.07 increase over prior year. GAAP EPS was $0.24 and included a $0.12 charge for pension settlements, $0.08 for discontinued operations, $0.03 in restructuring charges and transaction cost of $0.01 and a net benefit of $0.11 related to further interpretation of the 2017 tax legislation.

Free cash flow was $153 million in the quarter, which was an increase of $19 million over prior year. On a GAAP basis, we generated $103 million in cash from operations.

During the quarter, we used free cash flow to pay $35 million in dividends to shareholders and $14 million for restructuring payments. CapEx in the quarter was $51 million.

Turning to the P&L, I'll start with revenue performance in the fourth quarter by line item as compared to prior year. Software revenue grew 18%, business services grew 12% and financing revenue grew 2%. In the quarter, we had declines in support services of 2%, supplies of 8%, rentals of 9% and equipment sales of 10%.

Gross profit was $433 million, with a margin of 45.7%, which was a decline of $21 million or 3.9 points from prior year, which is largely driven by higher transportation and labor costs, along with the shifting mix of our portfolio.

SG&A was $273 million or 28.9% of revenue, which is an improvement of nearly 5 points from prior year. SG&A declined $34 million from prior year despite continued investments and higher costs in Commerce Services, but was mitigated by lower spend in our shared services and SMB.

R&D expense was $31 million or 3.3% of revenue. Compared to prior year, R&D expense increased $1 million. EBIT was $131 million, and EBIT margin was 13.8%, an improvement of $16 million and 1 point over prior year, driven by the revenue growth and our spend reduction initiatives.

Interest expense, including financing interest expense, was $37 million, which is about $7 million lower than prior year and driven by our pay down of debt. The provision for taxes on adjusted earnings was $21 million, and our tax rate was 22.9%, which is about 6 points higher than prior year due to benefits associated with the resolution of tax examinations that we were able to recognize last year.

Diluted weighted shares outstanding at the end of the quarter were approximately $189 million.

Let me now discuss the performance of each of our business segments in the fourth quarter. Within our Commerce Services group, revenue was $438 million, which was growth of 12% over prior year. EBIT for the group was $12 million, and EBIT margin was 3%. EBITDA was $36 million, and EBITDA margin was 8%.

In Global Ecommerce, revenue was $304 million, which was growth of 16% over prior year and a rate that is above the long-term market range. Within Global Ecommerce, we have diversified the portfolio and client base through offerings like our domestic parcel, fulfillment and shipping solutions, which enables us to perform better in different economic environments.

Our domestic parcel and fulfillment services delivered strong double-digit growth as volumes continued to ramp up through our network. Throughout the year, we significantly expanded our volumes and client base in China. We are seeing good traction with these clients, which presents a great opportunity. In addition, we continued to expand our domestic client base who have contributed to the ramp-up in volumes. This is a solid proof point that we have the products and services that clients want and we are able to meet their service requirements.

Also, within Global Ecommerce, shipping solutions delivered strong revenue growth, more than doubling last year's revenue as volumes through our shipping APIs and delivery services accelerated in the quarter. The Global Ecommerce revenue growth was partially offset by a decline in cross-border, largely due to weakness in volumes, the strength in U.S. dollar, as well as regulations and taxes in some of our larger inbound markets.

EBIT was a loss of $4 million, and EBIT margin was a negative 1%. EBITDA was $12 million, which is an improvement from where we've been in prior quarters. Let me address the EBIT performance as there are a few factors coming into play this quarter. First, we continued to invest in market opportunities and operational excellence initiatives, which is important for the long-term health of this business. Second, we saw a 25% increase in domestic parcel fulfillment volumes from prior year, which is the significant ramp-up. We stepped up appropriately early on in the season, but volumes in the last 2 to 3 weeks of the year were more than we expected in certain areas. We made a conscious choice to ensure we upheld our service levels for our clients. This required bringing in additional labor and paying for additional transportation, both at a premium. We also move volumes between facilities in order to process timely and meet service level agreements. This came with a financial impact, but also with an improved client experience that we felt was worth the investment. We will solve for these inefficiencies that resulted from ensuring a positive client experience.

And last, we opened 4 new Newgistics facilities over the last several months, with one being our Indiana Super Center. We also consolidated 2 facilities. We incurred start-up and overhead costs with these new facilities, but have not yet yielded scale benefits as they are not at full capacity.

Within Presort Services, revenue was $133 million, which was growth of 4% over prior year and at a rate above the long-term market range. The growth was driven by higher volumes of first class and standard mail as well as bound and packet mail and flats processed, but was partly offset by the lower revenue per piece. EBIT was $17 million, and EBIT margin was 12.6%. EBITDA was $24 million, and EBITDA margin was 18%. This quarter was impacted by a pilot program we launched in the third quarter where we expanded our marketing mail services, moving from a 3-day program to 6 days, improving the consistency and predictability of our delivery dates. This drove additional labor and transportation, often at a premium. We have addressed the launch challenges, and we will not incur premium labor and transportation charges going forward. Aside from this pilot program, we have taken several actions to improve productivity in this business in order to address the increased transportation labor cost, and those actions are getting traction.

Turning to our SMB group. Revenue was $412 million, which was a decline of 6% from prior year. EBIT for the group was $139 million, which was down less than $2 million from prior year; and EBIT margin was 33.8%, which is within the long-term market range and a nearly 2-point improvement over prior year. This improvement aligns with our long-term profit model, and our SMB group continues to generate good free cash flow. EBITDA was $160 million, and EBITDA margin was 38.8%.

North America Mailing, revenue was $321 million, which was a decline of 6% from prior year. Our streams continue to stabilize, and the decline this quarter is in line with the average of the last 2 quarters. Equipment sales decline due to lower top-of-the-line product sales as a result of a tough compare to prior year. In addition, last year included the first full quarter of our new C-Series product, which came with some pent-up demand, along with heavy and targeted marketing to build momentum around the new product at that time. We continued to experience good growth and placements of our C-Series product. Since launching a year ago, we have placed over 70,000 units and are on track in transitioning our client base into the new product. And we have deployed several new applications, largely around shipping, which allows us to drive more value to our clients.

Gross margins continue to perform within a 1.5-point range for the last 1.5 year. EBIT was $117 million, and EBIT margin was 36.6%, which is about 1 point lower from prior year, but above the long-term market range. EBITDA was $134 million, and EBITDA margin was 41.8%.

In International Mailing, revenue was $91 million, which was a decline of 7% from prior year, including sales decline, largely driven by weakness in the U.K. and France, but partly offset by growth in Japan. Recurring revenue streams also contributed to the overall decline.

EBIT was $22 million, and EBIT margin was 23.8%, which improved 12 points over the prior year due to lower expenses, largely as a result of our spend initiatives and improved gross profit margins. EBITDA was $26 million, and EBITDA margin was 28.1%. Additionally, in January, we announced the sale of our direct operations and moved to an indirect sales model in 6 smaller markets within the International Mailing portfolio in order to continue to optimize our go-to-market strategy. This aligns with our strategy to create a portfolio, focus on growth through shipping and mailing within major markets.

In Software Solutions, revenue was $97 million, which was growth of 19% over prior year. Revenue increased from prior year, driven by higher license revenue, primarily in data and location intelligence, growth in SaaS revenues, as well as the implementation of the new revenue recognition standard or ASC 606. Compared to the prior year, our team also closed a greater number of smaller deals. In fact, we grew smaller deals double-digit every quarter, and for the year, smaller deals grew over 30% from prior year. EBIT was $23 million, and EBIT margin was 23%, which was driven by the strong license revenue performance and lower expense. EBITDA was $25 million, and EBITDA margin was 25.6%.

Let me now update you on our 2019 annual guidance. The company expects annual revenue at constant currency to grow in a range of 1% to 4% over prior year. This 2019 guidance has been adjusted by approximately $40 million for the revenues related to the recent sale of direct operations in our International Mailing segment, which will impact our overall revenue comparison by about 1 point from a year-to-year perspective. This will not be restated as it does not qualify for discontinued operations accounting treatment. Adjusted earnings per share is expected to be in the range of $1.05 to $1.20. This guidance takes into consideration the impact of the recent sales of direct operations in our International Mailing segment as well as incremental cost that we will incur related to the current tariffs with China. These items combined are adversely impacting our EPS by $0.04 to $0.05 per share. Excluding the impact of these items, the midpoint of our 2019 adjusted EPS is essentially flat to 2018.

Our guidance does not assume any further increase in tariffs beyond the current 10% level with China, but would obviously have an impact on earnings, should current levels go to 25%. We have sized this to be an incremental impact of approximately $0.04 to $0.06, and this would naturally affect our guidance.

For free cash flow, we expect a range of $225 million to $275 million for 2019. The change from prior year is driven by the expected ramp-up of our third-party leasing initiatives, which will use cash but build finance receivables, which will benefit the company over the long term. Additionally, this guidance takes into consideration the new lease accounting standard, or ASC 842, which was implemented on January 1. This standard has a lot of moving parts, but we do not expect it to have a material impact on our overall 2019 full year results. We will recast prior years in the first quarter to conform to the new standard.

Let me double-click into each of our guidance measures. For revenue, we expect Commerce Services to deliver double-digit growth, with the fourth quarter being the largest. Within Global Ecommerce, continued double-digit growth will be driven by the expansion of our domestic parcel and fulfillment business as well as growth in our domestic shipping solutions and the cross-sell opportunity for all of our services.

In Presort, revenue is expected to continue to perform above the long-term market range, driven largely by the expected ramp-up in processing bound and packet mail.

For Software, we expect this business to continue to improve performance through a combination of large license deals, continued growth in small deals, as well as SaaS and maintenance revenues and continued opportunities from our indirect channel. We expect this to result in software growing revenue in 2019 within the long-term market range.

Within SMB, we expect revenue to decline, driven in part by a lower lease opportunity coming due in 2019. We expect continued success in placing our SendPro C-Series product and have launches in several large international markets planned throughout the year. We will also continue to ramp up our value-add shipping capabilities and expect to start originating third-party leases during the year. These incremental offerings partly mitigate the revenue decline in SMB, driven by the lower lease opportunity, the decline in first-Class mail, along with the recent sale of direct operations in our International Mailing segment.

Looking at our adjusted EPS guidance for 2019, there are some tailwinds and headwinds that need to be taken into consideration. The first being the shift in mix of our portfolio I described as I went through each segment's revenue expectations. The portfolio mix is shifting to higher revenue growth areas, but at a lower margin compared to our mailing business. And therefore, while we expect 2019 revenue to grow, overall gross margin percent will contract.

Last year, we announced a growth spend reduction of at least $200 million for 2018 and '19. Our business model is changing, and we must change how we operate as a company. Of that total target, we recognized over $150 million in 2018. We expect to recognize the remainder in 2019. A large portion of these growth savings will be reinvested in business, particularly in the areas of Commerce Services, our third-party financing initiatives and the reinstatement of variable compensation.

We also expect the tax rate on the adjusted earnings to be in a range of 23% to 27% for 2019. At the midpoint, this is about 2 points higher than where we ended 2018. Additionally, our Board of Directors has approved an update to our capital allocation. For 2019, the total capital we're returning to shareholders remains unchanged. The dividend approved for the first quarter is $0.05, and assuming a full year run rate, the quarterly dividend would result in a full year dividend of $0.20.

The board also authorized an incremental $100 million of share repurchase, bringing our total authorization to $121 million. Our intent, subject to market conditions, is to utilize about half of this incremental $100 million in the first half of 2019. This is assumed in our 2019 guidance.

Looking at free cash flow. Our investment and originating third-party equipment leases will drive a use of cash of $50 million to $70 million as we ramp up in 2019. Given the nature of these third-party leases, we will write and originate leases during the year, but recognize the revenue over time, so there is a timing element of how this impacts our balance sheet versus our income statement.

Let me also address the timing of some of these items in 2019. As the portfolio continues to shift to growth, particularly around shipping, the fourth quarter will increasingly be our largest revenue and earnings generating quarter. Our first quarter revenue and adjusted EPS will be impacted by this portfolio shift. Additionally, we are investing in our third-party leasing initiatives as we prepare to originate leases, which will impact expense ahead of the streamed revenue that will be recognized over time. And we expect our spend reductions will ramp throughout the year.

Lastly, while the new leasing standard does not have a material full year impact on our results, there will be a slight timing impact between the quarters weighted more positively towards the second half of the year. Therefore, we expect the first quarter's attainment to the full year will be approximately 1 point lower in revenue and 2 points lower on EPS as compared to last year's first quarter attainment.

So let me wrap up. Our transformation progressed in 2018 as we grew revenue for the year. We expect that growth to continue in 2019, which would be the third consecutive year of growth. The mix shift in our portfolio will put some pressure on margins. We will continue to reduce our spend structure to partly mitigate this pressure while continuing to invest in our business. Free cash flow is expected to be lower than last year, largely due to the ramp-up of our finance receivables for third-party leasing.

Before we open the line for questions, I do want to inform you that we'll be hosting an Investor Day in March.

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

QUESTIONS AND ANSWERS

Operator

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

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

I have a few, if I could. So Marc, just the first, just kind of -- with regards to overall kind of the demand sort of tender on most of the customer base? Have you seen what you call any impact from macro, excluding the FX moves?

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

Yes. I mean, so far, from a macroeconomic perspective, I think it's kind of the tale of 2 worlds. You got our business, which is principally based in the U.S., which U.S. economy continues to be pretty good. That being said, outside of the United States, there is obviously some pressures, particularly in Europe and China slowing down. If you bifurcate Asia versus Europe, while China is slowing down, it's still at a pretty fast clip relative to the rest of the world. And our base there is so low that we continue to think that's a great opportunity. On the other side of it, Europe is troublesome from a macro perspective. We do like the fact that our business is U.S.-based as you get into 2019 and 2020.

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

Okay, great. That's really helpful. And then can you also just go a little bit more into the difference between the new leasing initiative, I guess you're calling it origination, and what you've traditionally been doing just so we understand the details there?

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

Sure, Ananda, thanks. So first, what we've traditionally done is a capital lessor situation. So we're leasing our leaders and that's all done here, it's what we've been doing for several years. What's different about the new third-party leasing initiatives is we will begin to lease to our existing client base, primarily other types of equipment. So it could be other manufacturers' equipment, but we will be staying within, I will call it, standard deviation of that pool. The reason why we think this is such a great opportunity: a, we have excess capacity in the bank that will give us, I'll call it, seed funding to go out. But more importantly, it allows us to better serve our clients. So we have 750,000 North America clients, and this will be primarily based in North America. But those clients, we know many of them for decades in our credit history. So the ability to go in and offer them leasing on other equipment and their facilities, I think, is a really logical approach. So we think it's an underserved market. While it has high cost of acquisition, we think we have those connections already. So that's the distinction, we're going from a captive lessor to widening that out to equipment that we know with clients that we know quite well.

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

Got it. That's really helpful, Stan. And then, can you also just comment on what the impact to free cash flow this year is from that? And I guess, kind of ceteris paribus, like how should we think about your structural free cash flow once you get that third-party leasing business up and running?

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

Sure. If you think about free cash flow, we believe this will consume somewhere between $50 million and $70 million of free cash flow as we originate these new leases. We expect to do that early in the year. As you understand leasing business, Ananda, in our previous discussions, we're not going to see an immediate return, right? We're going to build that up through time. We expect that will start to yield later in the year and into next year. But -- so that will consume cash this year as we build those originations. So if you kind of take where we landed last year at $318 million and you look at this, basically, the free cash flow is kind of flattish on a year-to-year basis adjusting for this origination. But we think this is a good use of cash. And the reason why we think it's a good use of cash is because it builds up finance receivables for the long term. So does it have a material impact on the income statement in 2019? No. But as you go out 2 and 3 years, this could be a nice contribution to Pitney Bowes in our future.

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

I would just add. I mean, as we continue to transform the company and look for natural adjacencies where we have brand permission and economic advantage to participate, we've obviously spent a lot of time talking about shipping, and I think you're seeing the results of that. The other very natural adjacency is what else we can finance to clients that we know for a long time who have great credit histories, in particular, mission-critical assets. So we see these as both very natural adjacencies where we've got permission from our clients, permission from the marketplace to win.

Operator

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

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

Marc, maybe just a little bit more on capital allocation. Maybe why now? I understand you're saying the stock is where it is and, obviously, the share repurchase will help. But I'm just wondering the stock has been here for a little while, why maybe now the board decided that this would be the right time to cut the dividend and move to a different type of capital allocation?

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

Sure. If you kind of reflect back when we initially set the capital allocation policy, it was 2013. And as you understand better than most, the company was in a very different spot in 2013. Our revenue had declined for consecutive years. We were in markets that were going through secular declines. So you needed a capital allocation policy that reflected those realities. Fast-forward to today, we're in a much different place. As we've talked about, the weighted market growth of businesses that we're in now is positive, we've had our second consecutive year of growth. So we feel like there is different opportunities that are available -- we know there is different opportunities that are available for us in the marketplace. So we thought this was -- this is a time where we are coming from a position of strength in terms of winning in the market, good revenue result. And you're right, we do believe that the stock is underpriced. So for all of those reasons, we thought now is the right time to do it, and this new capital allocation policy gives us the flexibility to pursue what we think are really compelling opportunities.

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

And then, Marc, as you move to the e-commerce business, you're definitely seeing significant growth in the business. And I -- but the profitability of the business is still lacking. And I understand you've talked about investments of the business and this time around there is some higher costs whether it be labor and transportation. Is there a way for you to kind of parse the true profitability of this business to maybe help us understand kind of the underlying profitability if you kind of strip out some of that stuff?

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

Yes, we'll talk more about this in Analyst Day in a couple of weeks. I would just go back to the strategic intent of our business, has been and continues to be around revenue growth. I think the great mistake of platform businesses like this, particularly in the world of e-commerce, is you put too much pressure to get profitability too early and you end up constraining your ability to invest and your ability to grow and take advantage of the marketplace. So we'll have more to say about that as we get to Analyst Day.

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

And then just one last question. In the past, Pitney Bowes did offer third-party leasing. I believe it was different types of assets. So maybe as you look at going back into the leasing business, what type of assets are you looking to lease outside of -- is it office equipment? Is it something else? Could you give us just a flavor of the type of assets you're trying to do on this third-party leasing business?

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

Sure. And let me make a couple of distinctions from the past, if I might. So the first thing that Stan said is quite important, and that is we're focusing principally on clients that we already know, small and medium businesses. So we've dissected our installed base. We've decided on a target segment that we believe -- that we know has great credit history. So that's one important departure from the past. To the point of your question in terms of the kinds of assets, I liken it some way to the meter. The meter is, for small and medium businesses, a mission-critical asset in some way because it has actually has something to do with either collecting revenue or generating revenue. So extrapolating from that same dynamic, we're working for mission-critical assets in a few certain industries where we think we can -- where we understand them better and we understand the asset class better. So it's much different than the past. It's with clients we know. It's with assets that we understand better. So the example that we give is Denis chairs or forklifts. So obviously, the last thing that Denis is going to not make a payment on is the Denis chair, forklifts moves things around. So it's those types of assets that we're looking at.

Operator

And we do have a question from the line of Shannon Cross with Cross Research.

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

Stan, I'm curious, should we think about the basically funding your new leasing business from runoff of finance receivables and sort of the core to some extent? I think you talked about some pressure next year in SMB -- or in 2019 in SMB given lower lease renewal opportunities. So how was sort of the -- what's the balance from what you expect in terms of finance receivable net runoff from core versus what you're funding?

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

Sure. Thanks, Shannon. So there's numerous ways to fund this business. First, we have excess deposits in our Pitney Bowes bank reserve accounts, probably in the neighborhood of roughly $300 million, plus or minus. That will start the initial funding for it. From there, because we have the advantage of the ILC, we can issue deposits, certificates of deposits in internet savings accounts. We also have the ability as this gets larger to securitize those when we need to or syndicate those. So we see a number of meters to be able to leverage this business without necessarily tapping into regular Pitney Bowes cash flow. We also have that as a vehicle. So we like the ability to start up. We think we have a good path here on driving funding through the bank, which we can lever and that works out to our advantage. So we will grow this and have the ability to temper the originations over time to deal with market conditions.

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

Okay. But should we think about -- I'm just trying to figure out, should we think about your overall finance receivables bucket that you have up this year? Because, again, I would assume that there is some runoff that's coming out of -- or maybe that's the question, is what do you expect when you think about core finance receivables? How much of your free cash flow estimate for the year, how much is included in your free cash flow estimate?

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

Yes, if we take a look at the free cash flow piece, Shannon, and go through that, we do expect that, that business is going to decline on a year-to-year basis. So that ends -- part of that will come off of the finance receivables running off. When we look at the balance of those, I wouldn't say that those are necessarily going to be equal because there are a number of things, remember, that we're doing in the core business, investing into new equipment, we're rolling out the SendPro C-Series to international markets and bringing new capability there. So as we look at that comparison on finance receivables, we'll see a decline here. And then I think it's going to depend on the level of originations we generate in the new third-party leasing to see how those balance. But we will expect finance receivables to run off in the base business.

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

Okay. And then can you talk a bit about capital going forward? And I'm just curious because you've -- I mean, you've done a good job of managing the debt maturities and paying off in the near term, but you've got several coming due starting in 2020. So how are you kind of thinking about, I don't know, share repurchase on a longer-term basis? Is this something you expect given where the stock is at? To sort of maintain and re-up every year or so? Or are things going to change as you look forward again in 2020 and beyond?

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

I would think of our capital allocation as -- the important feature of our capital allocation is flexibility. So we were purposeful in terms of what we announced this year. We believe that's appropriate for 2019. Once we have a better view of 2020, including the maturities that you talked about, but also the organic and inorganic opportunities as well as the stock price, then we can make a decision about 2020. So I wouldn't see it as a long-term statement, but a clear view that we think the investment thesis for this company has changed to growth, and the capital allocation policy that we're putting in place is reflective of that reality.

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

And then, I'm just curious, Marc. Given -- I think you've done -- you sold distribution in certain other countries over the years and now you've obviously it done in some of the smaller countries in Europe. Is there an opportunity, perhaps, to sort of shift just to third-party distribution market overall -- or model, sorry, overall in international markets? Or what was sort of behind that decision versus maintaining direct sales in certain countries?

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

Yes. I mean, there is a couple of things. So to answer your question, we continually look at distribution. What was impacting those particular countries was, if you look at the overall mail market, it was declining quite quickly. And candidly, we were worried about critical mass over the long period of time. If you look at the countries that were left in, France, Germany, U.K., Japan, Australia, those are countries where we've got critical mass, the mail market is performing differently. That being said, we always look at distribution. We're looking at distribution not only in these 5 countries, but what other things we can do in North America as well, both in terms of rebalancing our channels, but also looking at new channels candidly. There is a series of new channels in the United States that might be pretty attractive.

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

Would that be more online or -- just curious.

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

We already have a -- we have -- I mean -- so if you look at the last 5 years, we've rebalanced from face-to-face to online in telesales, but there's other distribution mechanisms beyond those that we think might be interesting as well.

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

Okay. And then just one last question. With the third-party leasing that you're doing, do you anticipate partnering with some of the office equipment companies? Or are you doing this more as a outreach to your existing customers? That, "Hey, we are here, we can be a good option. Get you fast, quickly approved because we know you," if you want to go out and buy copiers or whatever that might make sense?

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

So we think our distinctive advantage here is we know the customers. So that will -- that's our principal axis to major on. So again, we've already incurred -- if you look at mid-market finance companies, they have a couple of problems. One is the cost of client acquisition is very, very expensive. We've already acquired the relationships with these clients. The second is credit history and credit management is difficult. We have got a subset of clients that are very creditworthy. And then the third is, as Stan pointed out, with deposits, we have a source of inexpensive funding that we think we can tap into. It's those 3 things together that create competitive advantage of the market, and those 3 things will continue to drive where we pursue this business.

Operator

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

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

For your North American SMB segments, I think it was down 6% year-over-year. Any thoughts of how this should trend in '19 if that's kind of a good run rate or if it would differ from that?

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

Yes, again, we'll have more to say about the respective performances you expect from these businesses. But we do have some tailwinds -- I mean, obviously, you're in a market that's going through a secular decline, that's not going to change -- that's not going to change, period. I was going to say, that's not going to change anytime soon. Mail is going to continue to decline. That being said, if you look at the C-Series, that was announced in the mid-range of the product. We will extend that product line to other families and other countries. So there are some things that will be different in 2019 versus 2018. That being said, we continue to see this as a market that's going to decline secularly.

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

Yes, I'd add that -- Allen, if you take a look at the stream revenue, meaning non-equipment sales, that was down 4.9% in '18, that's certainly an improvement from where we were '17 versus '16. So we've seen some stabilization. And then as we drive adoption of shipping within SMB, that has the potential to also help us on a go-forward basis. So I think you'll see a broadening versus just equipment sales being the only movement that drives the revenue performance over time.

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

That's why the financial services as well is an important dimension of our small and medium business strategy.

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

Okay. And then moving to the SMB international, you had a big improvement in margins from lower expenses. Is that something we should think of as sustainable?

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

Well, if you look at the SG&A of international versus the SG&A of North America, the SG&A international continues to be much higher. Part of that's because they don't have as much critical mass, but we believe there is ongoing opportunity to continue to improve margins in our international business.

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

Okay. And then for the sale of the SMB to -- in 6 international countries. Can you tell us what you got for that? And then you're saying that for '19, you're going to have $0.04 to $0.05 of a headwind associated with that sale and the China 10% tariff. Can you give us an idea of how much of the $0.04 to $0.05 is coming from each of them?

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

Sure. So if you take a look, first of all, we signed and closed this effective in January. We haven't disclosed the details of -- in the terms publicly, but the proceeds will be minimal overall. If you think about the second part of your question, which I'm sorry, I just forgot.

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

Second part of the question was decomposed headwinds.

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

Yes. So if you take a look, because this doesn't qualify for disc ops, we won't be recasting prior year, but you have a $40 million-ish revenue impact. And when you look at the bottom line, we said between the 2 that there is $0.04 to $0.05 of impact, you can think it's roughly half each on that impact. And China tariffs, March 1, we'll see what happens externally, but March 1, we'll be looking at whether or not it goes to 25%. If that were to occur, that would be an incremental $10 million to $15 million, that's not included in our guidance. We do have the 10% baked in.

Operator

And our next question comes from the line of Glenn Mattson with Ladenburg Thalmann.

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

In the software business, you guys mentioned a few things that helped, it was a nice quarter there, but one of the things you mentioned was just how the channel continues to help benefit that group. So can you give a little more characterization on that, like can you talk about the pipeline that they're generating, the conversion rate, the -- just some more color around how that channel effort is going?

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

Sure. So I think of the indirect channel initiatives in 2 buckets. The first is what we're doing with the global systems integrators. And I would say, the most important parts of 2018 from a global systems integrator perspective were the platform deals that we signed with the 3 global systems integrators. I would say those 3 are early stages in terms of building demand. But we're excited about the promise that those hold. If you look at the other buckets, it's around the Location Intelligence business, the regional systems integrators, those channels are performing well. If you look at the pipeline, there is a material pipeline coming from those channels. The conversion rate is slightly less than the direct channel so far, but as we get better at understanding the pipeline, that will evolve. So when you add this up, we look at the overall lift that the channel efforts provide, and it's a meaningful start in 2018, but a lot more opportunity.

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

I think, Glenn, as we take a look at that, the indirect channel makes up about 1/3 of our overall pipeline. I think the big change has been we're seeing a significant shift to lift deals within that. So we are nearly half our lift-related deals versus shifting. So continue to see progress in that channel.

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

Just to clarify shift versus lift, those are terms that mean a lot to us and may not mean as much to everyone else. So we think of shift as, we generated the demand in usually our customer base and we shift that demand to a channel. Lift is the opposite. Lift is where the channel actually generates the demand, and occasionally, we work with them to close it, but oftentimes they close it by themselves.

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

And the end-market applications for Location Intelligence, are they the same as they've been historically? Or is that market broadening out?

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

I would say it's the same in terms of where it's been. We're actually getting more focused on particular use cases.

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

Okay. And then the other -- I think you guys also -- staying with software, you talked about just the smaller deals also contributed significantly, so is that an effort to suggest that the business is -- the demand is more sustainable and that it's broadening out amongst many smaller customers, or -- and it wasn't just kind of a handful of large deals?

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

No, it's small deals. So it's a reflection of more customers and candidly more channels pursuing those more customers, so it's both dynamics.

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

Yes, but we saw good growth year, over 20% in the fourth quarter year-to-year and, in fact, grew significantly all year and was up nearly 30%, 35% here for the full year basis. So small deals performed well.

Operator

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

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

So first, just a quick housekeeping item. For software, for the quarter, how much was the impact of 606?

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

Yes, if we take a look at 606, I think there is an important point here, which we've talked about before, Anthony. When you look at 606, the accounting instructions laid out a set of terms, but we've seen changes in behavior, both from selling behavior as well as buying behavior. And one of the principles we have seen along those lines is that when -- in the past, when you did a 3-year deal, that cash had to be all upfront order for it to be recognized. That's not the case under the new standard. So under the new standard, if a client pays on 3 annual basis, then that revenue is still recognized all upfront. So we've seen a change in that behavior and let me give you some color around Q4. So in Q4, we had a number of renewals, so they were prior 3-year deal, same client, same content, same 3 years. Their payment terms are different than it used to be. Under 605, you wouldn't be able to recognize all 3 years of revenue recognized one, but we saw that change in behavior here and that impacted the middle for ASC 606 of about $16 million, $17 million in the quarter. And when we look at that though, I'd ask you to keep in mind same client, same content, different payment terms has resulted in different accounting treatment. The way we look at this is, we've gone out and this better helps -- betters serves our clients, the ability to do this has opened up an opportunity and that is, as the client looks at these different payment terms, they're expanding the content within their deals.

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

Okay. That's very helpful. And as far as your exposure to China, just wanted to get a better sense as to the revenue exposure and also, as far as sourcing, obviously you called out the tariff impact, wanted to see if there are any -- if it's at all possible to move any sourcing outside of China? If that's something that's even, again, possible?

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

Sure, Anthony. So first on the impact of China from revenue base. I think the part here is, we see this as mostly upside for us. So we started to build this. It was late in the year. So it didn't have a material impact to the bottom line. What we do see is great opportunity. And so while we scaled that through the last part of the year, that contributed a modest amount of revenue, we see a good opportunity go forward. So we think that will grow, and we have had good success there so far. But it's not a major exposure to us in the interim. On sourcing, we work with our partners, and this is primarily around the meter technology. We continue to work with them. They are sourced out of China. They have been rebalancing both inventory and manufacturing capacity. We'll continue to work with them. They've made some progress here through the interim and that might give us some potential to mitigate some of this if it continues on into the future.

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

Suffice it to say, we're hopeful that China and United States work out this issue. We don't think it's good for anybody. So...

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

Yes, absolutely. And in terms of your CapEx for 2019, have you articulated a plan for that?

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

We'll cover that more in Analyst Day as we go through the details. I think you should consider it be a modest increase versus 2018. But underneath the covers, there'll continue to be shifts, and we've demonstrated that in the past. For example, in 2018, we had a significant increase in Presort capital as we did automation in multiple facilities. And I think you'll see that shift into Global Ecommerce, and we always look at that composition within the business. But we think this is important. It's an important use of cash because it drives the long-term health and profitability of the business.

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

Got it. Okay. And lastly, as far as the 2019 guidance, you touched on the importance of the fourth quarter, given the seasonality of the business tied to the holiday season. Anything else as we look to update our models Q1 through Q4, anything else that you would like to point out as to how we should think about the quarterly distribution?

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

Yes, I think we gave some color around the guidance within the prepared remarks. I think there is a couple of things to keep in mind. One, if you think about last year in the first quarter, we were taking a look at some of the items that happened. We had a very strong cross-border quarter last year in the first. And you've seen the performance of that business has softened a little bit in the tail end of 2018. So I think you should think about that as we take a look at that piece. You'll also recall that last year in the first quarter, as part of ASC 606, we had the recognition as we're updating for that and that had a large software deal that won't be repeated this year. And that drove approximately 1 point of the year-over-year decline in the first quarter. I think those are 2 primary areas. So as you think about attainment of the year, you would expect first quarter to come down naturally as fourth quarter is going to be a bigger component and you saw that play out this year. You'll see that shift continue to happen next year.

Operator

And we do have a follow-up question from the line of Ananda Baruah with Loop Capital.

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

Just could you, Stan, frame for us what you have characterized, and Marc as well if he's useful, as lower lease opportunity in 2019 just so that we understand all the dynamics, if there's something there that we are not aware of?

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

Sure. So let me start. Marc can provide some additional color here. So if you think about our leased portfolio and think about finance receivables as a view of that, this is not a linear portfolio. So we -- our average lease term is a little bit over 4 years, but that doesn't mean it's exactly equal every year. So in any given year, the leases that are coming up to maturity is not going to be the same number as prior year. So you have an opportunity when it comes up to handle that in a few different ways. One, we can do a trade up, and with new equipment, we think that's a good possibility. Two, you could extend the existing lease with the client. Now that opens up new opportunities now with our shipping capabilities to both digitally connect that client, bring shipping capabilities and, if you will, upsell into that base. And then three, they could trade down or decide that they may not need a meter anymore. When we look at that lease base for 2019, it is smaller than it was in 2018. What you will see for finance receivables though as we go through and look at that, this ties a little bit into what Shannon was talking about earlier. Normally, we get some cash generated from the runoff of that portfolio, that's going to be partially mitigated as we do originations and we start to add finance receivables from third-party leasing. So while I still think that, that runoff will contribute some cash, I don't think it will be at the same levels as prior years.

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

I would just take it up a level, as I'm inclined to do. So if you think about the business up until now, finance receivables have been one of the most profitable streams of revenue that we have. And as you all know, those streams have been declining as the mail market declines. We think we have the opportunity with these incremental lease initiatives over time to arrest those declines and to replace what are -- have been incredibly profitable streams. I would reiterate, again, we think we've got distinct advantage in the markets that we are participating in, so it is a very overt effort to take advantage of where we have got strength and to arrest that dynamic of finance receivables' continuing decline over time.

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

Yes, I think the other part to look there is competitive plays. So we have a distinct advantage with our offerings now, and I think it is an opportunity in the marketplace for us.

Operator

(Operator Instructions) It does appear, at this time, there are no further questions in queue. Please continue.

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

Perfect. So let me wrap up. It's easy to get lost in a sea of numbers here between accounting changes and lease changes and other changes that are going on in the marketplace. But here is the takeaway from my perspective. We are exiting 2018 from a position of strength. Second consecutive year of growth. Fourth quarter, best quarter in a decade. And we think that is an affirmation of the transformation work that we're doing. Most companies don't get to that point where they find those new revenue opportunities. And we would distinguish ourselves from where we were in 2006 where -- not 2006, 2013 where our principal opportunities were around productivity savings. That's not where we are anymore. We've got great offerings in great markets that have secular growth, and we are winning clients. That is the takeaway. And from that is what has driven our change in capital allocation. We think the change in capital allocation provides the right degree of flexibility to continue to fund our strategies, but also at the same time unlocks value for our investors.

So we'll talk more about where we are at Investor Day, but I like where we are coming out of 2018, and we are well positioned for 2019.

Thank you.

Operator

And ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using the AT&T Executive TeleConference Service.

You may now disconnect.