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Q2 2024 PITNEY BOWES INC EARNINGS CALL

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## CORPORATE PARTICIPANTS

- **Alex Brown** *Pitney Bowes Inc - Director, IR*
- **Lance Rosenzweig** *Pitney Bowes Inc - Interim Chief Executive Officer*
- **John Witek** *Pitney Bowes Inc - Interim Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Anthony Lebiezinski** *Sidoti & Company, LLC - Analyst*
- **Matt Swope** *Robert W. Baird & Co. Incorporated - Analyst*
- **Peter Sakon** *CreditSights - Analyst*
- **David Steinhardt** *Contrarian Capital Management - Analyst*
- **Will Brunemann** *Northcoast Research Partners, LLC - Analyst*
- **Justin Dopierala** *DOMO Capital Management, LLC - Analyst*
- **Jeff Harlib** *Barclays - Analyst*

## PRESENTATION

### Operator

Good afternoon. Welcome to the Pitney Bowes second-quarter 2024 earnings conference call. (Operator Instructions)

I would like to introduce parties on today's conference call: Mr. Lance Rosenzweig, Interim Chief Executive Officer and Board Member; Mr. John Witek, Interim Chief Officer; and Mr. Alex Brown, Director, Investor Relations.

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

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### Alex Brown *Pitney Bowes Inc - Director, IR*

Good afternoon, and thank you for joining us.

Included in today's presentation are forward-looking statements about our 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 2023 Form 10-K annual report, and other reports filed with the SEC that are located on our website at [www.pb.com](http://www.pb.com) and by clicking on Investor Relations. Please keep in mind we do not undertake any obligation to update forward-looking statements as a result of new information or developments.

For non-GAAP measures that are included in the press release or discussed in our presentation materials, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release. We have also provided a slide presentation and a spreadsheet with historical segment information on our website.

Finally, in our prepared remarks, revenue comparisons will be on a constant currency basis with other items such as EBIT, EBITDA, EPS, and free cash flow on an adjusted basis.

At this time, I would like to turn the call over to our Interim CEO, Lance.

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## **Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Thank you, Alex, and good afternoon.

I'm very excited to join you for my first quarterly earnings call with Pitney Bowes. Just a couple of months ago, at the end of May, I outlined our commitment to accelerating the transformation of this iconic shipping and mailing company by focusing on four strategic initiatives. Today, I am proud to share that we have made significant strides in delivering on that commitment. We have taken decisive steps to position Pitney Bowes for enhanced profitability and sustained value creation, while also delivering strong results for the quarter.

I will begin by providing a high-level overview of our Q2 results, which reflect our commitment to quickly becoming a more efficient, profitable and cash-generating enterprise. We maintained relatively steady revenues and executed on our priorities within SendTech and Presort, resulting in \$46 million in adjusted EBIT for the period, a 43% year-over-year increase compared to the second quarter of last year. Adjusted EPS was \$0.03 a share, an improvement of \$0.05 over the prior year, and perhaps most notably, free cash flow was \$83 million, an improvement of \$94 million year over year.

The performance of Pitney Bowes in Q2 reinforces that we have a significant opportunity for continued cash flow and earnings growth as enhancements continue to be implemented across the enterprise. John will provide more details on our strong quarter momentarily.

Let me now turn to our momentum on our four strategic initiatives. A key highlight is the completion of our strategic review of our Global Ecommerce or GEC business, which resulted in us identifying an exit path for this business that will ultimately maximize value for Pitney Bowes shareholders. We completed our review of this segment after working with independent legal, restructuring and financial advisers to thoroughly assess numerous strategic alternatives for the business. This path was determined to be in the best interest of the company and the GEC Entities after an extensive review process.

Notably, the GEC segment has been struggling to achieve profitability over the past several years in the face of macroeconomic and industry headwinds. We weighed all potential options against the standalone future and the need to stem the losses and bring the process to a timely and well-defined conclusion.

Ultimately, the Board determined that the optimal path to maximizing the value for Pitney Bowes and limit ongoing business losses and liabilities was to support the decision of GEC's independent fiduciaries to sell a majority interest in the GEC Entities to an affiliate of Hilco Global, which intends to conduct an orderly liquidation of the GEC business through a Chapter 11 process. In connection with this exit, we completed that sale and the transaction closed earlier today.

Today, GEC and its subsidiary filed Chapter 11 bankruptcy cases to commence a liquidation of the business. GEC's fulfillment business, which we sold to Stord in July will not be part of the liquidation. We expect this exit path to eliminate substantially all of the losses associated with the GEC business, which were approximately negative \$136 million for 2023, while positioning Pitney Bowes to deliver stronger full-year results in 2025 as we become a more focused, streamlined company.

To be clear, Pitney Bowes will not go through any in-court restructuring process as a corporate entity. The company's SendTech and Presort businesses will continue to operate in a normal course and should not expect any impact. Additionally, the Pitney Bowes Bank will not be affected by the GEC exit, and we'll also continue to conduct business in the ordinary course.

Selling and controlling interest in GEC to Hilco positions GEC as an independent business from Pitney Bowes, undergoing the liquidation under the ownership of Hilco. In connection with this path, Pitney Bowes anticipates that it will incur onetime cash costs not to exceed approximately \$150 million, including providing certain GEC Entities, subject to the approval of the bankruptcy court with approximately \$45 million in a delayed term loan to support the efficient liquidation of GEC through the Chapter 11 process. We anticipate that the liquidation and wind-down process, which will require certain court approvals will conclude in early 2025.

Pitney Bowes will remain an industry leader in both mailing and shipping going forward. The solutions our SendTech business provides to clients are best-in-class in both mailing and multi-carrier shipping technology. Our Presort business will continue to provide large enterprises and smaller businesses with industry-leading mail sortation services and our Global Financial Services business continues to help our clients reduce their financial complexities of mailing and shipping.

Pitney Bowes has entered into amendments to the company's credit agreement and note purchase agreement to allow for the GEC exit without triggering any events of default for Pitney Bowes and also releases the guarantees and loans provided by the GEC Entities. This was an important step towards solidifying Pitney Bowes' financial position and setting up the company for long-term success.

The additional financial flexibility we have secured will allow us to make accretive investments in our core businesses, pursue high-margin growth initiatives and take other steps to enhance shareholder value. We appreciate the support of all of our lenders who continue to recognize that it is a new day at Pitney Bowes. As a result of exiting GEC, we expect to recognize a pretax loss of approximately \$200 million, which we expect will be partially offset by the benefit of tax losses.

Before moving on, I want to express our appreciation for the customers, vendors, and other partners of GEC. A top priority of Pitney Bowes is to minimize disruption and maintain the highest level of service during GEC's transition. We have reached out to other providers and will assist clients to the fullest extent possible in transitioning to the best alternatives in the market.

I also want to pause for a moment to express our sincere gratitude to GEC employees. Their hard work is deeply appreciated and this decision to wind down the business is in no way reflective of their performance. We understand the impact of this decision on all involved. But after years of unsustainable losses, these changes are essential to preserving the company as a whole and positioning the remaining business segments for future growth. We are providing severance payments and outplacement services to the GEC team to ease their transition.

Our second initiative is focused on driving operational excellence and cost efficiency. We have been making the tough yet necessary decisions to support our efficiency and cost rationalization efforts. Pitney Bowes announced last month that we successfully implemented approximately \$70 million in annual cost savings at the corporate level as well as within our core businesses. These cost savings were in addition to all savings directly related to exiting GEC.

We reiterate our anticipated target range of total savings of between \$120 million and \$160 million, much of which we anticipate will be addressed over the remainder of 2024. We are confident in our ability to deliver on the full range of cost savings we've outlined, and we will continue to look for additional opportunities in the quarters to come.

Third, we have made significant progress in our cash optimization efforts, primarily in three areas: the repatriation of international cash, the upstreaming of cash from Pitney Bowes Bank, and the reduction of cash needs in the US post GEC. We announced in May that we were working to free up \$200 million of cash through better cash management. I am pleased to share that we have already repatriated \$100 million of international cash and have freed up approximately \$40 million of cash from Pitney Bowes Bank year to date.

Accordingly, we now estimate that we will be able to reduce our go-forward cash needs by \$240 million, increased from our initial goal of \$200 million. We expect to repatriate an additional \$25 million of overseas cash during the second half of the year and have implemented a global cash pooling structure, which will enable us to maintain lower levels of cash in international jurisdictions moving forward.

Our final strategic initiative is around deleveraging the balance sheet. We believe that exiting GEC, reducing non-essential expenses and optimizing cash positions will allow us to materially accelerate our deleveraging objectives. These efforts will be supported by the previously mentioned reduction in cash taxes. As we execute on our strategic initiatives, we plan to prioritize the reduction of high-cost debt and near-term maturing debt. We will also focus on enhancing our credit ratings.

Looking forward, I am confident that the future is bright for our core businesses. SendTech Solutions are at the forefront of evolving mailing and digital shipping needs, providing innovative and efficient options for our clients. Presort continues to deliver significant value as a result of distinct expertise and technology, excellent execution and favorable market dynamics. And we have plans for our Global Financial Services offerings, including Pitney Bowes Bank, to further grow its already meaningful cash and net income contributions. These businesses represent the core foundation for our company's future growth and success.

Given these significant changes at the company, we recognize it may be difficult to model the company's economics. As such, we have included an illustrative EBIT bridge on slide 19 of the Q2 investor presentation on our IR website, which is based on trailing 12-month EBIT, adjusted for the estimated impact of the GEC exit and the midpoint of our estimated \$120 million to \$160 million in cost reductions resulting from our ongoing strategic initiatives. This is not a forecast, but an effort to illustrate what we deem to be the very strong underlying earnings potential inherent in Pitney Bowes without the Ecommerce Debtors and the costs we are in the process of removing.

While we are encouraged by the progress we've made, I want to be clear that today is not a victory lap. Pitney Bowes is still in the early innings of its transformation, and we firmly believe that there is a lot of opportunity and upside ahead. As we look forward, we will continue to leave no stone unturned when it comes to improving our profitability, effective capital and cash management and overall financial strength.

I will now turn the call over to John Witek to discuss our financial results for the second quarter in more detail.

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## **John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Thank you, Lance. I will now go over our second-quarter results and our updated outlook for the rest of the year, which incorporates our solid first-half performance and the strategic actions Lance just described.

Starting with results, consolidated revenue, including GEC, was \$793 million, up 2% over the prior year. SendTech and Presort both had great quarters and continue to make strong progress against our key initiatives. Productivity and cost reduction efforts across the entire enterprise drove meaningful bottom-line improvement with consolidated EBIT increasing 43% year over year to \$46 million in the quarter.

EPS improved \$0.05 to \$0.03 per share, driven by improved operating results and a timing-related tax benefit in the quarter and was partially offset by higher interest expense.

Cash flow was a terrific story in the quarter. Second-quarter free cash flow was \$83 million, which was \$94 million higher than second quarter last year. This improvement is better on a year-to-date basis with free cash flow, \$137 million higher through the first half of 2024. Operational performance, mainly from cost takeout and strong SendTech and Presort results, is driving the improved cash flow.

Working capital and finance receivables also materially contributed to the improvement. SendTech had a great quarter as the business continues to progress on its initiatives of product migration, shipping growth, cost reduction and better leveraging its financial services capabilities. In the quarter, SendTech generated revenue of \$320 million, a decline of 2% year over year, driven by lower mailing-related revenue and partially offset by growth in our shipping offerings.

EBIT was \$101 million, up 4% due to better revenue mix and cost reduction initiatives.

Mailing-related revenue declined 4% year over year in the quarter, primarily driven by near-term headwinds related to our product cycle, which includes a higher mix of lease extensions versus new leases. I'll expand on the impact of this dynamic a little later in my remarks, but the net of it is lower equipment revenue upfront, which impacted second-quarter results. In this environment, we are seeing positive demand for our mailing products with our total written contract value up year over year.

We also made solid progress on our product migration. 83% of our total install base and 88% of our low to mid volume meters are now on the new IMI technology. As a reminder, USPS requires all low to mid volume meters to be converted by the end of this year.

Shipping-related revenues grew 10% in the quarter and now comprise 16% of segment revenue. We remain encouraged about the performance of our digital shipping offerings, which drove most of the 33% year-over-year improvement in this quarter's business services revenue. Similar to last quarter, lower in-period equipment and professional services moderated overall shipping growth. Segment gross margin expanded 160 basis points and gross profit dollars were flat year over year.

SendTech's digital shipping offering, which includes SaaS subscription revenue, drove margin expansion in the quarter. Our product mix, modestly higher financing revenue and cost actions also contributed to the improvement.

Operating expenses declined \$4 million or 4% year over year from headcount actions and were partially offset by \$2 million in higher non-cash pension expense. Higher pension expense was a headwind in the first quarter of this year as well, and we expect it to remain a headwind in the second half of the year.

Net finance receivables were \$1.2 billion, down 3% year over year from a decrease in lease receivables, which was primarily a result of higher level of lease extensions.

As Lance mentioned, we see a significant opportunity to improve cash conversion and better leverage the value of the bank. In the quarter, the bank generated \$26 million of cash contribution to PBI, up over 100% year over year, a benefit partly fueled by the bank's participation in the financing of \$13 million of captive lease receivables, which is a quality addition to the bank.

Presort also had an excellent quarter and continues to drive significant profit growth with productivity improvements. Presort strength of impressive quarters reflects the quality of our team and the value we provide to our clients. In the quarter, we sorted 3.6 billion pieces of mail. Revenue grew 3% to \$147 million and EBIT was \$27 million, up 32% year over year.

Our team continues to raise the bar on labor productivity. Process improvements, along with prior investments in automation and analytics, drove pieces fed per labor hour up 10% year over year. Across our network, this equates to a reduction of over 150,000 labor hours versus prior year.

We also continue to drive better transportation efficiency. Unit transportation costs declined 5% year over year due to lane optimization through consolidation and insourcing as well as improved third-party contract terms.

Let me briefly talk about GEC's performance in the quarter. Domestic Parcel volume was \$60 million, up 21% versus prior year. Higher volumes drove a 7% increase in revenue to \$326 million in the quarter. Revenue per piece remained under pressure due to client mix and continued market overcapacity. The decline in RPP offset productivity gains and fixed cost leverage from the higher volumes. EBIT was a loss of \$31 million and benefited from a \$7 million or a 15% improvement in operating expenses year over year.

Outside of the business units, our unallocated corporate expenses were \$51 million in the quarter. The \$4 million year-over-year increase was driven primarily by variable compensation where last year, we were well below targets, and this year, we are outperforming our targets. Our variable compensation is determined by our stock price and performance against metrics laid out in our proxy. Excluding variable compensation, unallocated corporate expenses decreased \$12 million year over year.

Now, let me turn to the outlook. We are updating our guidance to reflect the exit of GEC, incremental cost reduction actions and a strong first-half performance. Our updated guidance is on a continuing operations basis and excludes financial results from the GEC Entities, which we expect will be reflected in discontinued operations in the third quarter.

We are holding revenue guidance to the prior target of flat to low-single digit decline. Our prior guidance assumed revenue growth from GEC and therefore, holding guidance implies improved revenue performance from SendTech and Presort compared to previous expectations.

Moving to profitability, we expect the continuing operations of the company to generate between \$340 million and \$355 million in full-year 2024 EBIT. This is more than double our 2023 reported EBIT of \$172 million, inclusive of GEC.

Let me walk through several key drivers in our outlook as we head into the second half of the year. Both SendTech and Presort remain well positioned in their markets, and we expect both to continue to execute well in the second half of the year. For SendTech, I'm going to take a minute to expand on the near-term headwinds that result from the current phase of our product life cycle.

At a high level, we expect two related dynamics to impact our revenue and gross profit in the second half of the year. First, the business has done a great job navigating its product migration cycle year to date. To this point, we outperformed our expectations in the first half as our client team successfully migrated clients to new products. This benefited first quarter and second-quarter results. In the second half of the year, we expect the remaining portion of our installed base to be more difficult to transact, resulting in a higher cancellation rate. This aligns with our experience from previous product migrations.

Second, we expect our mix of transactions to shift more towards lease extensions and away from new leases in the second half of the year. This is expected as the first wave of IMI products released five-plus years ago are coming up for renewal. Over the full term of the lease, lease extensions are more profitable transactions for us since we lock in continued monthly cash flows without incurring the cost to produce new equipment. However, revenue from a lease extension is recognized over the term of the lease as financing revenue versus upfront as equipment sales with the new lease. This dynamic creates near-term pressure on the P&L in a similar way as a software company transitioning from a license and maintenance model to a SaaS model.

Over the long term, revenue will stabilize as the high-margin annuity flowing through our financing revenue. These transactions are better for cash flow due to better profitability and less investment in inventory and net finance receivables. So to summarize, lease extensions are lower equipment sales in the near term, produce higher financing revenue over the long term and cash flow positive.

Turning to Presort, the business performed well in the first half of the year and has great momentum. We remain encouraged by the value of our offering to our clients, which is evident in our strong performance in new logo sales and competitive takeaways. The recent investments we have made in automation and technology over the past several years are resulting in meaningful efficiencies across our network.

To that end, we achieved our highest labor productivity in the second quarter, beating our previous record set in first quarter of this year. All of this gives us confidence that Presort is set up to continue to perform well in the second half of the year.

Finally, cost reduction, as Lance mentioned, we are moving with urgency to streamline the organization. About a month ago, we announced that \$70 million of annualized savings have already been initiated with the majority of those savings coming from completed headcount reductions across our support functions. We have also initiated savings from indirect spending, and we'll continue to see benefits from these reductions. Indirect savings will take longer to take effect, but we expect these actions to contribute to our \$120 million to \$160 million gross annualized savings target.

With that, I thank you, and I'll pass it back over to Lance.

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## **Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Thank you, John.

Pitney Bowes is better positioned than at any time in recent memory to capitalize on opportunities in the company's core cash-generating businesses. New leadership from the Boardroom to the management team is aligned with shareholders when it comes to driving the acceleration of value creation. We look forward to continuing to report on our progress as we execute on our previously announced strategic initiatives and accelerate the Pitney Bowes turnaround.

This now concludes the presentation portion of today's call. We'd now like to open the call for Q&A.

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## **QUESTIONS AND ANSWERS**

### **Operator**

(Operator Instructions) And first, we go on to the line for Anthony Lebedzinski.

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### **Anthony Lebedzinski Sidoti & Company, LLC - Analyst**

Good afternoon. Thanks for taking the questions, and good to see the conclusion of the GEC review come to an end here. So I guess, just first, just a quick clarifying question. So in terms of the onetime cash cost of \$150 million, is that mostly severance and lease termination costs? Or maybe if you could just touch on that first, and then I have a few other questions as well.

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### **John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Hey. Thanks for the question. This is John. It's actually a combination of a few items. There are going to be some expenses that the parent will bear. There will be some pre-petition professional fees, et cetera. That \$150 million is also going to be inclusive of the DIP funding that we're providing. And then we're also going to have outside of the professional fees, certain other wind-down costs that I believe the parent will bear.

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### **Anthony Lebedzinski Sidoti & Company, LLC - Analyst**

Okay. Thanks, John. So now that GEC is no longer part of Pitney Bowes and the business has been simplified, how should we think about unallocated corporate expenses going forward?

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### **Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Unallocated corporate expenses are coming down significantly. Our cost-cutting program that we've put in place is largely in corporate charges. And I think you'll see in the coming quarters a significant reduction in those charges.

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Absolutely, Lance. I mean, you mentioned in your script earlier, the first \$70 million actually went across all areas, business units, as well as corporate unallocated.

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**Anthony Lebiezinski Sidoti & Company, LLC - Analyst**

Okay. Got you. And then -- so now you have SendTech and Presort left. So I guess within SendTech, you talked about the shipping-related revenue now being 16% of your overall revenue. Do you guys have a goal in mind as to like how high that could be because that seems like it's really certainly a growth driver for that segment?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Yeah. It is, Anthony, the key growth driver, and we anticipate that growth continuing. So over time, it will become more and more material as an overall percentage of SendTech's revenue mix.

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**Anthony Lebiezinski Sidoti & Company, LLC - Analyst**

That's good to hear. As far as Presort business, obviously, that -- it's been an attractive segment for you guys for a while. So I know that segment has grown through some acquisitions in the past. How are you guys thinking about that longer term? Do you think there are some additional opportunities to grow that business organically and perhaps inorganically?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Yeah, we're excited about the Presort business, and I think a lot of credit to the Presort team. The company is executing extremely well and continues to improve its performance metrics and its utilization rates, et cetera. There are also ongoing opportunities for tuck-in M&A, and we are actively considering additional M&A targets. They're very accretive.

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**Anthony Lebiezinski Sidoti & Company, LLC - Analyst**

Okay. Got it. And then last question for me before I pass it on to others. So now that you've done this strategic review and we've done a lot of work in a relatively short period of time, I mean, do you guys have any updated thoughts on the dividend versus debt reduction, just the overall capital allocation thinking? That would be great.

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Sure. We did announce a dividend this quarter, consistent with recent quarters. The Board takes capital allocation very seriously. And each quarter, we do an extensive review of our cash and availability in terms of evaluating dividends or other uses of cash.

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**Anthony Lebiezinski Sidoti & Company, LLC - Analyst**

Okay. Got it. Well, thank you and best of luck.

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**Operator**

Matt Swope, Baird.



**Matt Swope Robert W. Baird & Co. Incorporated - Analyst**

Thank you very much, guys, and congratulations. Could you talk a little bit more on the GEC process on sort of how this is going to play out from here? What the timing is? Does this -- I know the transaction was announced today, when does the filing happen? When will be the timing on the cash out? And I guess I wasn't quite clear, when you talked about the max of \$150 million, does that include the DIP? Or is the DIP separate from that?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Let me take a general stab at it, John, and then you can dive into more details. So the sale of the majority control to Hilco closed today and the Chapter 11 filing happened today. So both of those are in process. It's moving forward on an accelerated timetable. Very highly organized plan that the Hilco team has put together with the GEC team. We expect that to happen expeditiously during the course of 2024.

Our final question on the \$150 million that is inclusive of the DIP financing, it's within the \$150 million.

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Yeah. And the \$150 million, also just to mention, I didn't mention it earlier, not only does it include the DIP, but it also includes the severance payments for the team. And as far as timing you had asked, I'd like to think of it this way as -- we're modeling it as -- it will be front-end loaded in the second half of this year and then sort of taper off as we get into the first half of next year.

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**Matt Swope Robert W. Baird & Co. Incorporated - Analyst**

Great. That's all helpful. And given that it is a DIP, is there a -- typically, we would think about DIP as a loan that has a chance of producing some value back to you. Should we think of that \$50 million as potentially coming back? Or should we think of that as out the door?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

We're modeling it as part of our \$150 million total cost, and we'll see. Bankruptcy always has some uncertainty to it. We're always hopeful for upside, but we'll sort of see how that plays out over the coming couple of quarters.

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**Matt Swope Robert W. Baird & Co. Incorporated - Analyst**

And then, Lance, you talked about the high-cost debt and near-term debt reduction. How soon do you think that can start? You've done a great job of freeing up cash, like you said you were going to do. You have the SOFR + 6.90% notes sitting there, but I know the call protection expires soon. How do you see the debt reduction part of the plan progressing?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Yes. Our lenders, I'll first say, have been very supportive of us, and we appreciate their support in our recent restructuring of our notes. We believe that our credit is going to get significantly improved as time goes by over the near term, and we intend to take advantage of our improved credit as we look at refinancing opportunities. We don't have a specific timetable though.

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**Matt Swope Robert W. Baird & Co. Incorporated - Analyst**

That's fair. And to that end, you talked about maybe some ratings improvement. Do you have a leverage target? I mean back -- a few years ago, Pitney Bowes was an investment-grade company. Is that a goal to get back to investment grade? How do you look at that going forward?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

We would certainly love that. But we don't have a stated goal as to our kind of investment ratings going forward. We are just trying to prudently run the business to optimize cash, to use our cash to improve our balance sheet and to emerge a significantly stronger company over time.

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**Matt Swope Robert W. Baird & Co. Incorporated - Analyst**

That's great. Well, congratulations again, guys. Thanks for all the time.

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**Operator**

Peter Sakon, CreditSights.

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**Peter Sakon CreditSights - Analyst**

Can you comment on what your expected churn will be for the remaining part of the year?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

I'm sorry. Peter, can you repeat the question? Your expected what?

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**Peter Sakon CreditSights - Analyst**

How much do you expect churn to be at SendTech? My recollection was a sort of mid-single digit decline on the number of units. Could you refresh our memory on that in your expectations going forward?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Thanks, Peter. Now I have it. I mean, if you think about the second half of the year and where we've been with the migrations with the IMI, we're in a spot right now where I think the more difficult transactions are coming in the second half of the year.

And as such, I expect -- I would expect that the cancellation rates would tick up. I'd say fairly significant from what we've seen up to this point. And that's all in our guidance. So what we're modeling through the second half of the year assumes that tick up in churn.

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**Peter Sakon CreditSights - Analyst**

But I'm more interested in what the actual amount is and how many units you're expecting to move this year.

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Yeah. But we're not going to disclose that today, Peter.

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**Peter Sakon CreditSights - Analyst**

Okay. Thank you.

## Operator

David Steinhardt, Contrarian Capital.

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### **David Steinhardt Contrarian Capital Management - Analyst**

Hey, all. Congrats on all of the moves today, very exciting progress. I see that you've given a guide for EBIT. It looks like free cash flow is pacing well ahead of last year. I wonder if you're able to give a sense of where you think free cash flow might be for the year at this point.

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### **John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

David, this is John. We typically don't give the free cash flow guidance, but I'd like you to think about it this way. It should look a lot like what we've seen in the first half of the year. We've got some very positive news built into our guidance. So I would expect it to be pretty consistent with the first half.

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### **David Steinhardt Contrarian Capital Management - Analyst**

Great. Thank you. And in terms of the expected payments related to the shutdown of Global Ecommerce. I think that the statement was up to \$150 million. Obviously, that includes a DIP. I wonder, can you give us a range of outcomes at this point in terms of what the low end might be?

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### **John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

I wouldn't give you a range. As Lance mentioned earlier, there's a lot of twists and turns along the way of this journey. So we've best modeled it at that rate, and we'll provide updates as we go.

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### **David Steinhardt Contrarian Capital Management - Analyst**

Understood. And in terms of the rest of the year for SendTech and Presort and beyond going into, I guess, 2025. I understand that the slide -- the EBIT bridge is for illustrative purposes. But in terms of the cost takeout goals for -- through 2025, should we think that you'll be able to get through most of the cost savings through 2025? Or is it still too early to judge when you'll be able to attack the rest \$140 million at the midpoint?

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### **John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Yeah. So when we up the range to \$120 million to \$160 million, we had a pretty good feel for what's going to fill that range. I would tell you we're making progress. And to kind of give you a sense, I think right now, I would say that by the end of the first quarter, we would be running at an annualized gross savings well inside of that range. Just to kind of give you the idea of the pace that we're on.

And when you think about the \$120 million to \$160 million, again, \$70 million being behind us, the majority of what's coming is really around indirect spend. So that's going to take a little bit more time to transact. There are a number of transactions that we have to go through contracts, relationships, et cetera. So I expect that to take a little bit longer, but confident that it's going to be in that range.

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### **David Steinhardt Contrarian Capital Management - Analyst**

Understood. Thank you very much.

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## Operator

Will Brunemann, Northcoast Research.

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**Will Brunemann Northcoast Research Partners, LLC - Analyst**

Hey. How's it going, guys? So I just want to make sure I understand the guidance for the second half of this year. How much of the \$70 million in cost cuts are included in the second half? I'm just trying to get an understanding of what the growth is in core EBIT.

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Hey, Will. Thanks for the question. Of the \$70 million, our guidance includes about half of that for the second half of the year.

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**Will Brunemann Northcoast Research Partners, LLC - Analyst**

Okay. And then I was also going to ask with the divestiture of GEC, will that eliminate all the lease responsibilities associated with the business? And will you have to dispose of any real estate assets associated with them?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Those transactions are all considered within the \$150 million. It will be a mix of a lot of those well.

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

And they will all be accomplished during the Chapter 11 proceedings.

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**Will Brunemann Northcoast Research Partners, LLC - Analyst**

Okay. And then just one more, if you don't mind. The shipping revenue in SendTech has been growing really nicely. And I'm just curious about how much SendTech revenue is shipping. And would you anticipate that business to continue to grow double-digit?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Yeah. I mean it was double-digit in the second quarter. It was about 16% of the segment revenue. So it's been pretty consistent growing double digit. Looking forward, I would expect it to be pretty much on that same pace. And some really nice things underneath the covers of that, particularly with our digital offerings, growing well above 30% there.

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**Will Brunemann Northcoast Research Partners, LLC - Analyst**

Okay. All right. Thank you, guys. Really appreciate your help.

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**Operator**

Justin Dopierala, DOMO Capital Management.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Hey, Lance. As an actual shareholder, I just want to say I appreciate the transparency and the very detailed earnings call.

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Thank you, Justin. I appreciate that.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Yeah, it's an incredible change from the previous management team. Going back to debt, I was wondering, do you guys have any idea of how much debt paydown you may be able to proceed with during 2024?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Hey, Justin. It's John. So I think the first priority as we get through '24 and the first part of '25 is to make sure that we successfully get the wind-down done and all the expenses that go along with that. I think we're in a better shape as a business right now to produce strong cash flow, and that will be the first priority. And then along with the fourth initiative around deleveraging our balance sheet will be a quick second here.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Got it. And so I understand that EBIT of \$481 million is not official guidance for 2025. But my quick calculations show that results in about an earnings per share of \$1.50. Does that sound accurate?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

We're not giving the guidance here. And keep in mind, Justin, it's really an illustrates exhibit. So we can maybe help guide you a little bit more on the modeling.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Sure. That should be about \$1.50 earnings per share, right?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Yeah. We didn't provide any kind of EPS information, Justin. It's really kind of a retrospective sort of a look at the actual EBIT performance adjusting it for the anticipated savings from GEC and cost takeouts.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Got it. Okay. And then I guess the last comment. Well, I mean I know someone else mentioned the notes that are yielding over 12%. I think it's \$275 million, the 2028 notes. It sounds like that might be something you're prioritizing early next year, eliminating that should be about \$33 million a year in interest savings?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

That's right. But I think our first priority would likely be more likely the '26 TLA.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Got it. And the last comment I have is, I would imagine that your relationship with the post office is extremely important to your legacy businesses. And I would assume -- I would assume actually in GEC would improve that relationship. I think other people might have different opinions. I'm wondering if you guys have any conversations with the post office on this that you can talk about?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Sure. Yeah, we have dialogue with the Postal Service pretty consistently all the time. Pitney Bowes has been a partner of the USPS for 105 years, and we have a strong relationship across our business segments, and we work hard to maintain that relationship.

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**Justin Dopierala DOMO Capital Management, LLC - Analyst**

Do you think exiting Global Ecommerce would improve that relationship?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

I'm very happy with how the relationship has been. I don't know whether that would make it any different really. We really value the team at the USPS.

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**Operator**

Jeff Harlib, Barclays.

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**Jeff Harlib Barclays - Analyst**

Hi. So the \$150 million of one-time costs, which I think you said will be mostly through early '25, maybe you can just confirm that? But will that be funded through cash flow and the repatriation of cash, et cetera? Or do you expect to raise new financing for that?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Hi, Jeff. It's John. Let me just clarify. I said earlier that's likely front-end loaded for the second half of this year. So -- and taper off in the first half of next year, and it will be funded through operational.

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**Jeff Harlib Barclays - Analyst**

Through operational free cash flow and the cash and the balance sheet that you're repatriating?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

That's right.

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**Jeff Harlib Barclays - Analyst**

Okay. And just for modeling purposes, the D&A of the e-commerce business, is it in the \$65 million range, so we can kind of come up with an EBITDA number, pro forma?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Jeff, can you clarify your question? I didn't catch it.

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**Jeff Harlib Barclays - Analyst**

The depreciation and amortization of e-commerce, you gave the EBIT, and I was just wondering what the D&A is that you're -- to come up with a pro forma EBITDA number?

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**John Witek Pitney Bowes Inc - Interim Chief Financial Officer**

Yeah. The D&A was about \$14 million in the second quarter.

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**Jeff Harlib Barclays - Analyst**

Okay. And maybe last thing, can you just talk a little bit about, obviously, you've done a good job of executing on these cost savings. How do we get comfortable you didn't cut too deep in some of your core business areas?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

So risk management is very important to us, Jeff, and it's important at the Board level as well. And prior to implementing our cost takeouts and prior to forecasting our new cost takeouts, we have a pretty extensive review process internally and with the Board on risk.

And we're very confident as we implement these cost takeout plans that we've looked at the implications of our cost takeouts and really look to manage and mitigate any potential risk. And it's a very detailed process that we actually go through. We're pretty confident in it.

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**Jeff Harlib Barclays - Analyst**

Okay. Thanks very much.

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**Operator**

There are no more questions. Mr. Rosenzweig, would you like to make any additional remarks?

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**Lance Rosenzweig Pitney Bowes Inc - Interim Chief Executive Officer**

Thank you, everyone, for joining us for this earnings call. We appreciate your support and questions, and look forward to catching up again next quarter.

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**Operator**

And that does conclude our conference for today. Thank you for your participation and for using AT&T Conferencing Service. You may now disconnect.

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