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# EDITED TRANSCRIPT

PBI - Pitney Bowes Investor Update Meeting

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## PRESENTATION

### Unidentified Company Representative

Ladies and gentlemen, please take your seats, we will begin in two minutes. Thank you. Ladies and gentlemen, please welcome to the stage, Pitney Bowes' Vice President Investor Relations, Charles McBride.

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### Charles McBride - Pitney Bowes - VP - IR

Good morning. Wow, what a great crowd we have here today. Thanks to all of you including those at our webcast that are joining us today. We have a full morning of discussion, demonstrations and questions and answers all designed to give you a better understanding of our capabilities and our opportunities.

Marc will start us off with his observations about the company and a strategic vision for moving the company forward. And Mike will end this morning with our financial overview.

In between, you'll hear about our markets, learning about some of the exciting ways we are applying technologies to help our clients in those markets. We end the morning with a Q&A session, during which, we will ask that you wait for a microphone before you speak for the benefit of those participating via the webcast.



Before we get started though, there are few administrative topics I want to go over. I hope you all have an investor kit which has the agenda and copies of the slides we will use today. For those of you participating in the webcast, there is a link for the slides on the page where you accessed this presentation.

For those in the room, the fire exits are clearly marked and on the back and the side of the room. And I would ask all of you to please put your phones on vibrate in respect for the people making the presentations.

Also, there are two important things outside the room that we want to make sure that you take advantage of throughout the morning breaks. There are refreshments and demonstrations of our technology and client applications.

And yet in the demo area, we have examples of our e-commerce and location intelligence solutions, our SendSuite Live Shipping software, our innovative White Paper Factory, our Volly digital mailbox solution and our industry-leading Connect+ mailing system.

Again, there's time to view them during the breaks and after the Q&A.

If during the morning, you need anything, please let me or [Julie Machelios] sitting right over there, let us know and we'll try to help you out.

Now, for the legal and accounting disclaimers -- this is the fun part of my job. Our discussions today will include both historical and expected financial results. I draw your attention to the slide on the screen and the disclosures in the beginning of your books. These disclosures explain our use of forward-looking statements and while we make certain non-GAAP measures when describing our financial results.

These disclosures are also posted on our website and there's reconciliation between GAAP and non-GAAP measures as part of the disclosures both in your book and on our website.

Let me reiterate again, my thanks for joining us today. And we look forward to the discussions. But first, we are going to start with a brief video which I think you'll enjoy.

(VIDEO PRESENTATION)

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### **Unidentified Company Representative**

Ladies and gentlemen, please welcome, the president and CEO of Pitney Bowes, Marc Lautenbach.

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### **Marc Lautenbach** - *Pitney Bowes - President, CEO*

Good morning. Good morning.

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### **Unidentified Speaker**

Good morning.

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### **Unidentified Speaker**

Good morning.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

So Charlie told me last time we had analysts day, we have, what, Charlie, 35?

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**Charles McBride** - *Pitney Bowes - VP - IR*

Yes.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Amazing what a few bagels will do to spark attendance. But since, we're thankful for your interest in our company. I will tell you with the benefit of about 100 days under my belt at this point. I think it's a tremendously interesting opportunity.

And you'll see a theme today around unlocking value and that is what me and the rest of the leadership team is all about. I think there's tremendous value in this company and it is simply just a matter of unlocking it.

Three very simple objectives for this morning -- the first is to articulate to you what we believe is a very credible and a very focused strategy to deliver that value, to unlock that value, if you will.

Second, I want to spend some level of time on the team because when you invest in the company, you invest in the leadership team.

And I believe that, I know you believe that and I believe -- I know that we are putting together a leadership team that has incredible, incredible talent.

And then finally, we're going to talk a little bit about the journey. I'm going to describe to you at least from my perspective how I see this unfolding over the coming years.

And it's my hope that like I have, over the last 100 days, you know, more broad relations. I've been studying the company over the last almost nine months now. You begin to think about Pitney Bowes in a very different way. And as I think about Pitney Bowes and I thought about it deeply as you would guess, there are two words that keep on coming back to me about Pitney Bowes.

And the first is commerce. If you think about what mail was really designed to do, mail, you know, at its origin was principally designed to support commerce. And in that sense, Pitney Bowes has been supporting commerce since our birth, 93 years ago.

And the second, and this was, I have to admit, a little bit of a surprise as I got into the company and learned more and more about it, that second word is innovation. And I will tell you it's interesting when I was early in my tenure, not that I'm late into my tenure now, but I brought in the two previous CEOs in alternative days and got their perspectives on the company, and it was interesting from any different reasons.

But one of the things that both George Harvey and Mike Critelli pointed to was the company's history and focus around innovation. And I can tell you what the benefit of 100 days and meeting the team, some of which you'll meet this morning, but more importantly, talking to our clients, I think that term is very well earned and very well phrased inside of Pitney Bowes.

As you would guess, I got a lot of advice as I was entering into the organization and it was all well placed advice, all good advice. It was mostly around how you spend your first 100 days and it was the kinds of things you would expect. Listen, go listen to employees, listen to the clients, listen to the shareholders, listen to the analysts, listen, and for certain we did that.

So we went on a tour. I've made a wrap around the world. I've been to many of our major facilities. I've spoken to many of our business partners. I've spoken to some of our shareholders, some of our analysts, and that's very informative.



But one of the things that I want to impress upon you about myself as well as the leadership team is this is a leadership team that's committed to action and execution. And if you step back over the last 100 days, we for certain have listened and learned, but importantly, we have taken many critical actions that we know will establish the foundation for how we go forward.

Long before me, the financial team led by Mike and the treasury team has had a very strong focus on the balance sheet. But in the last 100 days, I would suggest and assert there have been some very important actions to fortify the balance sheet -- two very successful debt offerings, some important actions around our pension obligations and the net of all those actions has been to narrow the credit default swap spreads by 200 basis, and I think that's an indication of the company's commitment in the balance sheet, it's an indication of how we think about the foundation that we create value.

New hires, and excluding yours truly, we will have, as of today, replaced approximately a third of the corporate officers. We have a new SMB leader, we have a new software leader, we have a new treasurer, we have a new CIO, and this morning, and I'll describe more in a bit, we're announcing a new chief marketing officer.

So that's five new officers and including yours truly, that's six, and that is approximately all totaled about half of our corporate officers. And I think that's an indication of the notion that we're putting a leadership on the ground that can drive significant value.

Importantly, we've begun two projects which we'll talk about in a little bit of detail around improving our working capital as well as contemporizing our routes to market.

So if you look at the technology industry where I came from, there is pretty extensive use of alternative channels whether it'd be [Tele] or the Web and how those channels begin to compliment your face-to-face sales force.

And I think there is the great opportunity inside of Pitney Bowes to introduce those new channels, and as you do that paradoxically provide better client service and also have a more efficient route to market.

Likewise, we have two important projects which began in January 1 around revisiting our inventory, and the second, around improving our DSO performance.

So not to belabor the points but suffice it to say, it is a leadership team and my own personal commitment to take in the kinds of actions that we need to drive our business to a different -- to a different level. Then obviously, I've gone through a strategic review of the business. As you do that then we come up with a series of diagnostics.

The first is you see the obvious, and you all who have followed the company know this, but Pitney Bowes has an incredible, incredible client base. And we've talked a lot about the small and medium business client base and I will tell you having spent over a decade in IBM leading our small and medium business organization that the client risk of Pitney Bowes has, in the small and medium business, would be envy of any company and any industry. It is without parallel as best I can tell. But it goes beyond that, it goes beyond that.

If you look at our enterprise mailing services business, you see a strong representation of the Fortune 500. If you look in our software business, you see our clients were some of the most sophisticated technology companies and procurers of technology in the industry.

And as I tried to learn the company, it was most helpful to learn about Pitney Bowes from their perspective and it provided a picture that you began to see these diamonds in the rough, and you'll see some of these diamonds in the rough today whether it be great technologies or great products or in many cases, great people.

And to me, that again, provides the basis and the foundation of how it is that we can move forward. I'm not lost on any of you and certainly not lost on me. The company has an incredible financial model.

One of -- someone asked me this morning of why did I joined Pitney Bowes. If you look at the basic financials of the company and close your eyes and put the word mail aside for a second, you see a company that has incredibly strong market positions, very high switching costs, high gross margins, high recurring revenue.

As you're looking around for companies to leave or companies to join or in your case, companies to invest in, I would -- I would suggest to you that you don't find many companies with that kind of financial model.

And in some ways, it reminds me of IBM's mainframe franchise in the early 1990s which I will remind you that in 1992, people said, was going away. Twenty years later, it's going pretty strong. And I'm not trying to compare mainframes to mailing, they're different creatures, but it is a long way of saying that I think the financial model of the company is very unique and very, very strong.

And then finally, and we tease a little bit about this, the brand is an iconic brand. It is a brand that is very well understood, has many attributes that are I think important basis for how we go forward. It is a trusted brand. It's a brand that's seen as dependable and all those things are important characteristics of how we go forward.

That said, we obviously have some problems, and I think it's important in this forum to be candid about those issues and problems. I said something in the annual statement and the annual report which I've got a question on this morning to the effect that there is nothing wrong with Pitney Bowes that all the things that are right about Pitney Bowes can't address.

And what I mean by that is while there are for certain secular issues that we're working our way through, what I see is a series of issues, many of which are internal to our company that we can fix, but let me kind of go through them one at a time.

Execution -- execution has become the buzz for CEOs to talk about when they're having issues. If you've Google'd CEOs and executives or sales -- or sales execution, I would guess you'd get hundreds, thousands of hits, and in fact, we've talked about it earlier this week.

But I don't think it really does the issue of justice. I think you need to step back and go deeper and understand, why is it that the company hasn't executed? And to my way of thinking, what has been lacking is we have not consistently had the conditions for success for execution in place.

So what do I mean by that? How do you put the right people in the right jobs with the right tools and the right investments behind them in a consistent manner?

We've talked a lot about software on Tuesday and we can talk a lot more about it going forward although I don't want to make this a relitigation of the first quarter.

But, you know, one of the very clear issues in our software business is we have too many people that have general knowledge and not enough people that have deep specific product knowledge. That's a problem that is very internal to us, very easy to fix with a little bit time, a little bit investment.

I'm giving other example. I visited one of our call centers and Spokane, Washington a couple of weeks ago. And what you see is -- first of all, it's a remarkable facility in many different ways but what you see is a very long-tenured, highly professional group of folks.

And I visited with many of the different disciplines that were represented in the call center. And whether this was around accounts receivable and what you see is the group of people that have been in their jobs eight to 10 years, highly skilled, highly professional and then negotiating their ways through seven different billing systems -- seven different billing systems to answer clients' questions.

So you wonder why it is that we at times trouble -- have trouble giving clients the kind of service, the kind of responsiveness that we should and then you think about the intended complexity and the cost that goes along with seven different billing systems.



And that's what I mean about how do you put in place the conditions for successful execution. And my diagnosis of the corporation is we just haven't done that often enough. But -- but, it is something that's within our control to fix.

Integration, the company has not been well integrated. I would suggest that we have to integrate ourselves from the technology perspective fairly well, but the back offices -- particularly the back office of acquisitions that we've made are not well integrated.

I talked about seven different billing systems. In total, the company has 37 different order to cash systems -- 37. I spent the last several years of my career at IBM doing systems integration work. I will tell you 37 different order to cash systems is a lot, and probably 35 or 36 more than we need.

And again, that adds complexity to the business and along with that complexity goes a lot of costs. So when people are asking about SG&A and, you know, they talk about the routes to market, yes, there's a ton of opportunity to contemporize our routes to market and that would drive a level of efficiency.

But I will tell you the bigger lever perhaps is just straightening up the back office, again, something that's internal to Pitney Bowes. And because of that poor integration, the systems are not what they could be or should be.

But as you begin to get the company integrated then the systems environment becomes much easier to deal with. And again, paradoxically, we spend a lot of money on I.T. inside our company. I would assert, you know, probably too much money, but as you integrate the company, you'll get better systems, less complexity at better efficiency.

And then finally, while I think the brand is a well-understood brand and that's both the good news and the bad news. It is a brand that has many strong characteristics and many strong attributes but needs to be contemporized. It needs to be moved in the 21st century and again, that's something that I think I know we can do.

So if you look at those lists of opportunities and, you know, throw on top of that the work around routes to market working capital, those are things that are all internal to Pitney Bowes. Those who have a bond thing to do with whether the mailing market goes down 1%, 2%, 4%, those are things that we can fix that are internal to our business.

Four basic tenets to the strategy, first, organization, we're going to organize ourselves around three distinctive client senses -- SMB mailing, enterprise mailing and services and what we will call today going forward digital commerce solutions.

Digital commerce solution is an interesting and emerging opportunity. Gartner has spoken about it for some period of time. IBM was focused on it. And in essence, what this market opportunity is all about is how it is that you help clients, client-facing functions become more efficient.

Gartner has opines that 2017 chief marketing officers will direct more technology spend than CIOs, pretty interesting. Whether that's precisely right or not, I don't know, but I do know directionally it's correct. And I think Pitney Bowes brings some very distinctive assets that you'll hear about today to that marketplace.

Each of these organizations will have a very distinct strategic intent. And if you are to look at the business, one of the things that I would observe is you mix different strategic intents in different businesses.

As we go forward and as we thinking about how we run the business, we'll have much more purity in our segments -- SMB mailing, all about delivering cash; enterprise mail and services, how we optimize those businesses; and then finally digital commerce, all about growth, all about growth.

And as you begin to put those strategic intents in place, develop very different financial models, different leadership teams, different skills, different everything. And that level of purity of organization, that level of clarity of thought becomes a really important again, condition for success.



So you don't have fragilely new businesses embedded in mature order businesses that you have this interception of conflicting motivations, again, trouble for a quarter and I begin to starve some of new businesses, you know, those kinds of dynamics.

Integration, this is directly to the point I've made on the previous slide, pretty simple stuff, something that I know how to do well, standardize the applications, consolidate those applications and apply technology, very straightforward, something that's been done by many other companies around the world. And as you do that, as you do that, you begin to leverage your size in a much more effective way and provide much better client experience.

Talent, to me, this is perhaps along with capital allocation which I'll talk about the two most important things that a CEO needs to get right. I talked about the new team in general. Let me talk about them in a little bit more specificity.

Mike Monahan and Kevin Connolly who led our strategic transformation driving all of the projects around operational excellence, same team that took \$400 million of cost in expense out of the business focused on taking that work and driving that to the next chapter.

Mark Shearer who is with us this morning, Mark is a colleague of mine from IBM. I've worked with Mark for over a decade. Mark had several different jobs inside of IBM, one was recent where he ran on marketing for a server group, but before that, he ran our iSeries or AS/400 business which is a business that was focused on the SMB market, a strategic intent around cash and productivity using very contemporary routes to market.

Mark Wright who is not with us this morning, again, an individual I've known for almost two decades, Mark joined us from Infor. Mark's most recently mission at Infor which for those of you who are not familiar with the company, was a rollup of software ERP companies was to rationalize and to integrate disparate software businesses. Sound familiar?

On top of that, I will tell you having known Mark for almost two decades, Mark is one of the most credential sales leaders in the industry. I deal with this today but he's absolutely out making sales calls precisely where I want him to be.

Joe Schmitt -- Joe Schmitt, new CIO, Joe was at Generic Electric and before that -- or after that, at service. Joe is all about integrating disparate systems.

And this morning, we're announcing a new chief marketing officer, Abby Kohnstamm. Abby will be joining us on June 17th, and for those of you who don't know Abby, she is an iconic leader within the marketing world.

She was the chief marketing officer in IBM. She took the brand of IBM in 1992 which was in tatters -- in tatters. It was next to General Motors and Sears on the front page of Fortune as a dinosaur. A company going extinct and led our marketing function organization and the brand to be the second most valuable brand in the world behind Coca Cola.

Before that, Abby was at American Express. She's on the board of Tiffany. You couldn't pick a better person not just in the industry but in the world to help revitalize our brand.

But her credentials go beyond that. Abby was a trusted partner of mine as we developed the SMB strategy for IBM. She's a trusted partner of the sales team as we re-engineered the go-to-market and as we moved IBM to become a client-centric company.

So what I'm trying to describe to you is a leadership team that not only has world-class talent but has fit for purpose talent, fit for purpose talent for precisely the kinds of opportunities, for precisely the kind of opportunities that Pitney Bowes has in front of us.

Capital allocation, I understand this is something that's perhaps on many of your minds and I've gotten one or two questions about this, this week. Let me talk about this for a second in general terms.

The capital allocation strategy is all about how you to optimize total shareholder value. It's not about how you optimize a particular element of the strategy but how it is these things come together in order to drive total shareholder value.



Mike and I will describe a series of principles of how we're thinking about capital allocation. We're not going to deliver a formula or a formulaic representation of how it is we're going to allocate capital, but I believe we'll describe the principles to a degree that will give you an appropriate level of comfort that we will be excellent stewards of your investment.

First, you keep on talking about this, we are committed to have a strong balance sheet and investment-grade ratios. We believe that is important because it provide us the strategic flexibility and the visibility to run our business. We're committed to making organic investments to drive growth and to drive operational efficiency.

Dividend, we obviously took some actions with the dividend this week. There have been a lot of questions about the dividend over the last three or four months and I will surmise probably for the last year.

These questions have been answered. We now have a dividend that is competitive and I would suggest more than competitive to our peers, a dividend that's predicated on a strong balance sheet and strong cash flows. Question asked and answered.

Acquisitions and divestitures, I'm not sure if it's the normal practice for people to describe divestitures and acquisitions in the same breadth when they're talking about capital allocation. I think they're important because whether it be incremental capital that you're putting to work or capital that you already have in the business, divestitures matter.

And here's how we're thinking about the portfolio. As I went through the portfolio in the businesses, there are three criteria to stay in the Pitney Bowes family. One is you have a degree of strategic coherency with what we're trying to do. Second, you can be a market leader within your respective segment. Finally, you can earn an acceptable return for our shareholders. You have to meet all three of those criteria. If you can't meet those three criteria, you need to have a plan to meet those criteria. That's simple.

Acquisitions, let me spend a second here because I know this is top of mind with many of you.

The first thing that I would say about acquisitions is we've got a reasonable amount of work to do to integrate and get value out of the acquisitions that have already been made. And if you were to ask me my first thought on acquisitions, it's to get money and value out of the acquisitions that have already been made.

Secondly and I don't know what the similar metrics are in this industry but I come from an industry where acquisitions by and large don't make their business cases. In the technology industry, less than 40% of acquisitions don't make their business case.

And I understand pretty directly from my previous experience with shareholders is many of your reflexes around acquisitions are, "Please don't use something stupid with my money." I get it, I get it.

And as you look at my background at IBM, you could say, if you're trying to divine, you know, my predilections, IBM was a very acquisitive company. That would be the one lesson. The right lesson would be I would be a very disciplined, very disciplined buyer of businesses.

And to the extent we do it, they're going to meet three very simple financial criteria -- accretive in 18 months, cash flow positive in five years, internal rate of return of 15%. But beyond that, before we spend the first dollar on any acquisition, there'll be a plan to integrate the company, there'll be a thoughtful consideration of cultures and there'll be a thoughtful plan to how it is that you retain the key leaders in the businesses.

So I understand the angst around acquisitions and that angst is well placed given on the track record of most companies around making them. We'll be thoughtful here. Finally, share buybacks, share buybacks around the table and we'll do them opportunistically.

So hopefully that begins to reveal to you how it is we're thinking about the different dimensions of capital allocation and collectively how you use all five of these tools to drive shareholder value. I'm sure that will be the last question I've got in capital allocation today.



And core strategy rise in culture, and while I will not take you through the obligatory culture of change program which we are progressing inside of Pitney Bowes, I will make a couple of quick comments.

We are working very hard in the culture and there are some very good things about the culture of Pitney Bowes that we're trying to build off of. There is a deep appreciation for innovation. There is a wonderful relationship between the company and employees but there are things that we need to move forward on. We need a much more client-centric, we need to deliver -- develop a much higher degree of accountability for execution and results.

And lots of different ways to calibrate that but for those of you who work for our proxy statement, you'll see that we made some pretty important changes to executive compensation in 2013 where we aligned almost all of the executive comp with financial results as opposed to previous years or 70% of executive comp was on financial results and 30% was qualitative.

So this notion of how it is that you align the executive team compensation with financial performance and ultimately shareholder performance is very fundamental to our cultural change program. And while we've made important progress here and I think it will provide much of the foundation for how we go forward, we will continue to evolve this.

Let's talk about the journey and how we see this rolling out from a timing perspective. First, Mike and I over the last couple of earnings calls, we've been very clear that we see the mailing business stabilizing in the coming quarters.

And in fact, what Joe will tell you and what Mike will tell you and I will tell you is we're already starting to see that. We see this mailing business stabilizing in Europe where we've gone meter-neutral over the last several quarters, we're neutral-positive. You see it in Canada, and it's our anticipation that you'll see that in the United States in the coming quarters.

Secondly, operational excellence, the projects that we have underway right now, not projects that we're contemplating, not projects that we're going to do next year, projects that are underway right now that have started in January around working capital, around our routes to market -- real benefits in medium term. And they will yield substantial benefits like we render that explicit for you, but there is real value to be created by getting to be operationally excellent.

And as I intimated at the outset, the way that we're thinking about every aspect of our business, every aspect of our business is we're benchmarking ourselves. And we're not just benchmarking ourselves against others in our industry, Neopost, or whoever. We're benchmarking ourselves against whoever we can find that is best of class. We're in a very narrow industry in some ways, so it's not always most appropriate to benchmark yourself against those that are most handy.

And then finally, grow, and let me be clear for a second. I'm not saying this is going to take us three years to grow, so don't write that down, don't put that in your spreadsheets. What I am saying is that as we invest in these growth businesses, it's going to take a while for them to get the point with a scale, it makes a difference than lose the needle.

We start to see some -- some little businesses stay but in aggregate, it's going to take some level of time. This is important point. We're not diversifying or doubling down in businesses that don't drive value. Don't expect to see us double down on services businesses that are dilutive to our margins. It's not going to happen.

Don't expect us diversify in the spaces that we don't understand that we can't drive distinctive value. We're not going to chase the shiny objects. We're going to be very disciplined and focused about making investments using your capital in places where we have technology differentiation and business insight that drives unique value.

But let me give you an example that kind of illustrates the point. [PBC] care that you're going to hear Art talk about many of our technology and security capabilities in a minute. And I will tell you coming from IBM and having spent most of my recent years working in federal government, we have gotten deep technology and encryption skills.



And it goes back to our meter business. If you think about what the meter is, the meter was a very early commerce machine. You put money in, you get stamps out. But importantly, because of that, it had very strong security capabilities.

There was a mandate from the postal services and something that we then invest in for decades. As you think about our business going forward, those skills around technology around encryption particularly in this day and age where cyber security and digital security is such a concern, have tremendous value.

And it's a great example of us taking our capabilities where we've been investing for years and had distinctive domain expertise and proven the new products, new technologies, new used cases that drive value.

That's how we're thinking about. We're thinking about places where we can do something that's distinctive, that other companies can't, that you couldn't -- by investing in some other place.

I think this is also an appropriate time to make a comment about Volly. Volly is -- go back -- Volly has been top of mind for the company, and because of that for many of you. And Volly is one of our important growth opportunities but it's just one.

Our work with Australia Post continues to go well but as we think about Volly going forward, it is going to have to compete for capital with other very compelling opportunities. And as I've said on the phone on Tuesday, we will very much like to introduce Volly into the US market this year but only if we have a business model that makes sense.

And it may not be the business model that we originally conceptualized. It may be with the partner. It may be a proportion. But the point is like everything else we are doing, we are doing very disciplined and focused about putting our capital to work in the way that drives real returns.

I've covered a lot and we've talked about our 100-day actions, talked about my diagnostics, talked about our strategy, talked about our thoughts on how we allocate capital, how we drive distinctiveness into the market.

And I think if I were you, I, you know, want to know well, why should I believe. Well, I think there are five -- five reasons to believe.

First is, and I don't mean to equate this to the kinds of investments that you're making but I'm announcing this morning that I'm investing a \$1 million of my own money in the company, not money that Pitney Bowes has given me, not some grant, this is \$1 million from my own checkbook.

And while I know that pales in comparison to the kinds of capital that you can put to work or you can recommend to put to work, for yours truly, it's a pretty big investment and it is entirely appropriate given my belief in the business and I think entirely appropriate as potential investors or investors that you would think that I have my own skin in the game too.

Second, if that's not compelling enough, clients are investing in our technologies and our products. And as I go pressure wash whether or not we've got the goods in location intelligence, in geocoding and security.

Having conversations with companies like Facebook and eBay on our landed cost engine give me a great deal of confidence that with that technologies that really can make a difference, some of the most sophisticated clients and sophisticated companies in the world are investing in our technologies, and not just our software visual technologies but our mailing technologies.

And while I know it's again not perfectly analogous, any venture capitalist would want to know, show me your client list, and again, I think the client list of Pitney Bowes can respond with is very compelling.

Third, I think the growth opportunities that we have are incredible and compelling but I think there's a very strong investment thesis. Simply put in those aside, embedding on the productivity which is real, incredible because I have a leadership team that has done it before, we have opportunities that are in existence terms for coupled with a very strong dividend.



Those two things all by themselves, putting aside what you may or may not believe about the growth opportunities, I think present a very compelling investment thesis in the short-term. And you get an option for all of the growth opportunities that you're going to hear about in a minute.

A team has done it before. Again, and I can't stress this enough, when you invest, you notice -- when you invest in a company you're investing in the leadership team, the leadership team that we are assembling and largely have assembled over the last 120 days, has done this before. Maybe different industries, maybe different companies, but they've done it before. They're do it again.

Last point, as I was preparing for my last conversation with the board of directors in my final interview, I went back and reread a book that has been one of my favorites from a business perspective, "Good to Great," Jim Collins book.

And I wasn't reading for any particular reason. It's just as always kind of a thought-provoking book and I was very struck to find Pitney Bowes was one of the 12 or 13 companies that Jim Collins talked about as a great company.

That is a little over a decade ago. And the point is this, the point is this, the company knows how to succeed and it has succeeded. For you don't last 93 years, the way this company has without the capability to transform and evolve.

And that muscle memory is fairly, fairly fresh. Well, one of the great things about the Pitney Bowes employee base is pretty long tenured. They remember that. They remember what it feels like to be a winner, and I believe I know we're going to do it again.

And as I put together all of those reasons, you know, I must tell you I'm very confident of our future. I find this a very compelling place to work and I couldn't be more excited about what's in front of us.

But let me switch gears and bring up Joe Timko. Joe has been a trusted partner as we have gone through the last 120 days, much of strategy thinking that we are putting in place, Joe is the author of.

And I will tell you that much about thinking, in many of those thoughts, preceded me. Joe has a strong tenure inside of our company, he's the chief technology officer and the chief strategy executive, has a long in which tenure at McKenzie but also ran a substantial portion of AT&T's engineering organization.

He has been a chief architect as I've said of our strategy and importantly, a very trusted partner to me over the last 120 days. So Joe?

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**Joe Timko** - *Pitney Bowes - Chief Technology & Strategy Officer*

Thanks, Marc. Good morning.

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**Unidentified Speaker**

Good morning.

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**Joe Timko** - *Pitney Bowes - Chief Technology & Strategy Officer*

So I'm going to spend the next 25 minutes or so describing the three broad segments that Pitney competes in as Marc described them, small and medium business mail, enterprise mail and services and digital commerce solutions.

So let's talk about the first one. This is really a definitional slide, what we mean by small and medium business mail, equipment software and services that enables our clients to efficiently create mail and evidence postage.



On the left-hand side, you see a couple examples of our tabletop machines. On the right-hand side, you see a photo of Connect+, our flagship model, higher capacity more fully featured.

So it's a two-slide story here. This one is on the two primary geographic markets, North America and Europe, and the second one will be on Pitney's position and that will be the general -- my general process for going through each of the spaces I described, the market and our position.

Hopefully by the time I get through with the slide that follows this one, I'll have provided you some evidence that we think we can outperform what might be implied by the general trend of this deck on the slide.

So two geographies -- on the left, North America, currently, the installed base is about 1.3 million meters in the market, that declined last year at about 4.2%, a little bit more mild than the two previous years.

You may know in 2011, the USPS made some projections for mail volumes and not for meters but for underlying mail volumes going forward and projected that through the end of the decade, first-class mail would decline at about 6-2/3% a year that would take you through 2020. And standard-class mail also called direct mail would be effectively flat. It would grow at 0.4% CAGR over the period.

It's important to know though that standard-class mail oscillates around GDP or marketer's expectations of GDP when they want to invest in their next mail campaign, mail-marketing campaign.

Given the mix of these two kinds of mail, USPS said over-all mail would decline at about 4.6 in the US. Since they made these projections, first-class mail has declined a little bit more mildly and standard-class mail probably given economic uncertainty has declined a little bit more steeply, but roughly speaking, I would say that projections are on the mark.

Just a little bit more good news from the USPS, they have said that since 2010, parcel shipments through their network have increased 14%. And before the morning is out, you'll see how Pitney Bowes intends to participate in that growing segment of the ecosystem.

So let's move to Europe on the right-hand side here, at 920,000 meters in that geography, it's about 70% the size of North America, it's declining a little bit more mildly at about negative three.

You'll see down on the bottom of this slide and on the bottom of other slides some margins. These are intended to general margins of participants in the spaces. Here or there, it's -- and they're EBIT margins, by the way. Here, I show a range based on geographies. That's generally true for Francotyp, Neopost and ourselves. And so you'll see those blocks with margins in them on future slides.

So let's talk about Pitney Bowes. A lot to cover on this slide here. We have about 75% of the North America installed base and a region leading 42% of the European installed base. That gives us about a 60% global share, about 1.5 million meters in use today.

They generate about a \$2.4 billion revenue stream. It is obvious painfully so but obvious that all competitors in the space are affected by the secular declines in mail volumes. But it is equally true that meters do not decline one for one with mail volumes. They are lumpy. Because an enterprise sends 10% less mail, over time they are not going to stop using their high-speed meter to make it convenient for them to send the remaining 90%.

Mail remains critical to more official types of communications, bills and statements, legal documents, compliance notices and increasingly parcels. Our meters can print out labels for parcels and do so very effectively.

Moreover when meters come out of the market, they come out disproportionately at the low end. As small businesses come into existence and go away, so did those meters at a much more rapid rate than the more profitable larger machines.

So as Marc alluded to, I'm going to tell you that in the second half of 2012 in Canada, our market meter unit base increase. This is also true in Europe for three straight quarters. Our placement of units has increased.



So imagine that there is somebody from Pitney Bowes standing up in front of you in 2013 telling you that in many developed markets, number of meters that we have has increased.

This brings about in part and contributes to a moderation in the decline of some very important recurring high margin revenue streams that Mike alluded to in the earnings conference before the morning is out, he'll put some numbers too today.

So, you know, we think we can differentiate ourselves in this market. We think we can outpace the underlying mail volume trajectory and I described a couple of reasons why we think that's true, I'll describe two more.

The next one is a modern product line. The Connect+ product line has touch screen interface, downloadable applications and we can print full color in multiple locations on the envelopes that makes it a much more compelling marketing vehicle. Even our low-end products are now Web-connected and can be controlled by a browser, so we think we have a very modern confident product line that will meet customer expectations.

And then lastly, we think we have opportunities in emerging markets specifically India and Brazil. And I would throw the fact that our revenue from Brazil last year grew 260% off a small base admittedly but it's important to understand that this growth is not predicated on mail volume increases in those countries. It is not, it is predicated on government sanctioning the use of our technologies in those -- in those countries. It's very important to understand.

Okay, so our intention as Marc described in the mailing business is to manage this business more efficiently. It needs to generate cash, it needs to generate cash to both bolster our margins and to create some investment capacity for other areas of the portfolio which we'll talk about this morning.

And one-way that Marc described we're going to do that is by modernizing our go-to-market mix. We will make greater use of third-party channels, telesales and Web, and Marc shares capabilities and experience is important to driving that initiative forward.

So in summary, amidst all of the negative press about the USPS and mail volumes, Pitney Bowes maintains a market leadership position. With 1.5 million customers out there has a modern product line and has some pockets of growth opportunities and we think we have a plan to differentiate ourselves from the over-all trajectory here.

Okay, so let's talk about the second broad segment that Marc described that we compete in -- enterprise mail and services. I wouldn't bother to read you this definition, but these -- these types of approach (technical difficulty) ZIP code and then delivering it, inducting it into the mail stream in a way that qualifies for posting rate discounts, so instead of being charged \$0.46 for a first-class envelope, the USPS says, "Hey, you did some work for us, we'll charge you \$0.36 per envelope in that bundle." That's the basic of the value proposition here.

You can see on the lower part of this deck, there's about 43 billion pieces of mail presorted by third-parties like us and by in-house presorts. So large companies would send out a lot of mail, do their own presorting in-house.

Consistent with over-all mail declines, it's expected to decline at about five, but the other part of the market is actually slightly bigger -- standard-class mail, 46 billion, roughly flat again.

So if you skip to the bottom right-hand side and you look at John Q. Sample's address, you'll see those markings down beneath, and that is the intelligent mail barcode and that describes who the mail is from and where it's going to and what kind of mail it is roughly speaking.

A good thing about this is that beginning in 2014, anybody who presorts in-house or a third-party needs to comply with regulation puts this mail barcode on the envelope. This will help the USPS process the mail faster. They'll also enable the mailers to figure out where their mail is and to provide proof of delivery and other such services.

So why do I mention this? Well, because this is important to the evolution of the space. We think that in-house mailers really have two choices. They have to either upgrade their technology or choose to outsource to third parties like us.



Given mail declines, we think that there may be some who say, "Hey, you know what? I don't have the volumes I am used to and I'm now faced with the technology upgrade." We think some of them will choose to come into the market and give us their mail volumes, so we think it can drive some growth here.

So in addition, our assets that we use to presort are completely flexible and can be applied to sort standard-class mail. Standard-class mail is still a very vibrant marketing channel, open ability, a lot higher than email marketing campaigns, so it still has a lot of juice left in it.

The trend here is the smaller batches, higher open ability, more targeted messages, a little more experimentation in the market. When you send small batches, it's harder to qualify for those postal discounts, but not us because we're aggregating mail, we will always qualify for those postage discounts.

So we think there are some opportunities here, and in fact, in the last couple of years, we've gained a 1-1/2 of share, and today, we only sort 6% of that standard-class mail, so we think that area has some vibrancy for us going forward.

Okay, so let's move on to the second enterprise space here, that being production mail. So this space is principally composed of two product categories. Inserters, this is the equipment that folds the mail piece and actually inserts it into the envelope, that's why they're called inserters. And sorters, and this is the equipment that presort services uses to sort the mail by ZIP code -- not just presort services but anybody who's doing that.

So inserters, about a \$900,000 million market, a slight decline; sorters, about 1/2 of that size, a slight -- a little bit of growth; margins for players in the space, about 10.

So if we turn to Pitney Bowes, we have about \$450 million business in the space. We have a little over half of the global inserter installed base and a little over 10% of the sorter-installed base.

Now, beyond these two product categories, there are two opportunities for some additional growth here. The first, I don't mention but I'll mention it verbally here, and that is production print. Through our partnership with Hewlett Packard, we are going to market with production print solutions and actually, Mike alluded to some contract wins in production print as being a positive contributor to earnings in the quarter.

The second one is around the White Paper Factory, and so what is a White Paper Factory? White Paper Factory enables our clients to literally start with a roll of white paper, a roll of very flexible white paper that they can do anything they want with. They can then print the mail pieces, insert the mail pieces into envelopes that are formed from the white paper, that folded and formed from the white paper, very professional within these days.

Insert the mail pieces in the envelopes, put the indicia postage on the envelopes, sort the envelopes and then our services take it away for postage discounts. So it is truly an end-to-end solution starting with the roll of white paper.

Why do we like this? Why do our clients like this? They like this because of the flexibility. Because again, as they have their production floors, they have less mail volume overall, they are looking for ways to utilize them more flexibly so they cannot only do the fixed batch runs of bills and statements but they can do flexible runs of marketing mail on the same equipment they like to add. So we think there'll be a real pull for this. We were first to market with this. We were furthest up the learning curve on this kind of technology.

Overall, this -- these kinds of opportunities are somewhat offset by the consolidation of the customer base. There are customers who are making higher utilization of the equipment that's out there today, not so good for suppliers like us, and also overall mail declines, of course, affect those businesses as well.

Okay, so onto management service as a third part of enterprise mail and services. So the blocks on the left 2/3 describe a very large and heterogeneous set of markets. If you're doing the math in your head, it's 54 billion in the North America and Europe. We participate in the two blue blocks.



On the left, mail room management, about 2 billion, slightly negative growth, high single digits or mid-single digit margins And then in the middle top, onsite print management, 3 billion, a little bit of growth, similar margins.

We have about \$920 business here. We are the leader in the US in mailroom management. We're in the top three in onsite print management. But more important, our Fortune 1000 customer -- customer base gives us a couple of growth opportunities.

One of these is in document management solutions, and Mike alluded to this as well as being a positive contributor to earnings. What this is, is basically taking inbound documents, digitizing them, indexing them and putting them into the workflow of an enterprise client.

So what does that mean? It might mean that you're processing a whole bunch of inbound credit card applications and you want to handle them digitally and so we take those at the -- at the point of receipt and get them started into our clients' workflow and actually execute parts of the workflow for them as well.

The second growth opportunity is print outsourcing, and that's really an emergent BPO style service whereby we will aggregate the marketing print spend on behalf of a client and place it into the market on the most favorable terms on their behalf. So those are the two growth opportunities for us there.

Okay, so let's move to the third broad segment. So we covered small and medium business mail and enterprise mail and services. We're now going to talk about what Marc described as digital commerce solutions.

Simply put, our clients are going to communicate with their consumer clients more digitally and more through mobile channels, and that's where we will invest.

So our growth options that Marc described as part of the investment thesis, perhaps in the short term, the part of the investment thesis that you would be most skeptical on appropriately so, our growth options are in digital commerce solutions.

So I say I'm going to describe three here, I can only describe -- I have to describe this as selective because we do a lot in this space. We're going to talk about location intelligence, parcel management and secure evidencing or pbSecure as Marc referred to it.

Yes, I remember that we have other stuff here. We have our communications management business with its EngageOne Suite. We have Volly. We have Emtex production floor control software, and on the marketing side, we have moversource.com and MyMove -- so all good stuff, just not enough time.

So when I'm done introducing you to these three spaces, Art Parkos is going to come up and talk to you about the underlying technological capabilities that we think differentiate us here.

So let's talk about location intelligence. So Pitney has been a leader in address quality for over 30 years and in 2007, we acquired the assets of MapInfo and that really strengthened our position in over-all location intelligence.

LI, if I can call it that, originally really grew up in the public sector. So the applications would be in land use management or in planning the infrastructure of the growing metropolitan area.

So whether we run the sewers, how do we keep track of the land posts, what [speeds] are going to get sidewalks, all of this kind of planning, all that stuff that you need to keep track of. MapInfo really took that kind of analytics work and moved it into the commercial sector.

So let me give you a very modern example that involves a real-world example of a restaurant. Restaurant that wants to target people living in a radius of their dining location, but not just a simple circle drawn with a compass on a map radius, a real practical drive time radius perhaps factoring in drive time up to dinner hour even.



But they not only want to target people within a practical radius, they want to target people who have similar socio demographic characteristic as their current diners. And so our location analysis capability has enabled and combined those kinds of datasets and we can give them their next best set of prospects. So that kind of location intelligence is really in the \$6 billion blue stack growing at about 10%.

But there's another pace to this market and it's embodied for us in our spectrum platform. If you know spectrum, you know that it started off as a data quality tool for address cleansing. So you give us an address and we will validate that, "Yes, Thomson Avenue exists in that town, and yes, 43 Thomson Avenue is a valid house on Thomson Avenue. And yes, that ZIP code matches that town. And oh, by the way, we can add the last four digits to the ZIP code if you want us to." Things like that, that's what I mean by address cleansing.

But today, spectrum is much more. Spectrum is a general-purpose data quality and integration tool. So sure, you can start with addresses, we can add those socio demographic characteristics of a customer base, we can add their purchase behavior, we can add their social media influence and we can do predictive analytics on that customer base to give you the kind of marketing leads that you want. That's all embodied in the spectrum platform. So with those capabilities, that's what I would call integrated data management on the top of this deck, similarly sized, growing a bit faster than the core of location intelligence.

So as part of the morning, James Buckley will be up to talk to you more about our location intelligence solutions.

Okay, onto growth space number 2, parcel management. So in all the years that we've been serving the needs of the mailroom, people do other things in that mailroom. They also ship parcels out of that mailroom. So we have naturally expanded to provide systems for enabling them to do so.

Our current system is called SendSuite Live and what it enables us to do for them is to shop carriers, shop their rates and their terms, select the carriers and specific terms, electronically interact with those carriers to do the manifesting that they require, arrange for the shipment and then track the shipment along the way.

SendSuite Live has undergone recent modernization which is going to be two things for us. First, it's going to enable us to move this application out of the mailroom where we might say it gets used by the casual shipper, the person who is mainly processing mail but also does some parcels, move out of that and into the production shipping space, people who are sending out parcels as a core part of their business.

The second thing is by the end of the year, SendSuite Live will be available in the SaaS format which will enable us to target businesses that might be a little smaller or who might feel like a SaaS form factor is more appropriate to them. So we think there are growth opportunities there. All in all, this is about \$1 billion space growing at about 10%.

But when you lose to something under that \$1 billion which is much bigger, so a business that we have the change in scale, we couldn't get it all there, and that is around cross-border e-commerce.

So this is driven, of course, by the fact that we all participate and buy stuff on the Internet to the tune of about \$1.25 trillion a year, but only a very small portion of that is shipped cross-border, and there's a good reason for that, Craig Reed will be up in a few minutes to talk to you about that and he uses the word, "friction". There is a lot of friction in the process. It's taxes, duties, documentation, restrictions on what can be shipped where, it's generally a pain.

And so it doesn't get done as much as it should. All retailers regardless of size want to ship their goods to anybody who wants them anywhere on the planet, it's just very tough to do.

Until now, we would say that we have the world's most advanced fully landed cost engine and Craig will talk to you about that.

Okay, so onto our last growth space, Marc referred to this as pbSecure. And rather than describing exactly what it is, I'm just going to give you three examples because I think it's -- it's the easiest way to get a handle on, so I'll talk about the three elements of this deck.



With regard to document authentication, we have a solution in the marketplace now in India that authenticates diplomas. So on diplomas from leading universities, we put a 2D barcode with the essential information about the person and what they accomplish at that institution.

That barcode can then be read, can then be read by employers who want to validate that what the diploma says is consistent with what the person standing in front of them says, and that's just one example of document authentication.

We are also exploring ways that our secure physical device that's part of our mail meter today can be re-pointed and be made part of a secure electrical meter as part of the Smart Grid.

And on top, we've recently licensed our technology to use that same device and the network backs it up could be part of medical devices. These are medical devices that may be unattended in the hospital or even unattended in home where you need to be careful and be able to detect whether they've been tampered with and whether the dosing has been in compliance with what the doctor ordered.

Now, Okay, these all sounded very cool and everything but you go with why is Pitney Bowes doing this? Well, it turns out that, you know, if you can process \$20 billion worth of currency through a postage meter, you keep track of every penny and prevent physical tampering, you can generally meet the requirements of this kind of applications, so that's why we're exploring this.

Okay, again, in summary, I've talked about three growth spaces, location intelligence, parcels management and secure evidencing. We think that each of these has the opportunity to be a \$200 to \$300 million business for this by the end of the planning period, say in five years.

So we get the fact as Marc described that we have to achieve a balance here, we have to achieve a balance between driving medium and long-term growth and delivering every quarter. And Marc and the entire management team are dead set on achieving that right balance.

Okay, so that's it for me. I think we have a 10-minute break and then Art Parkos will be up. Thank you.

(BREAK)

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## PRESENTATION

### Operator

Ladies and gentlemen, please take your seats. We're about to begin. Ladies and gentlemen, please welcome back, Marc Lautenbach to the stage.

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### Marc Lautenbach - Pitney Bowes - President, CEO

I'm back. So as I had intimated at the outset, one of the great surprises in my first 100 days was these "diamonds in the rough" and lots of different dimensions to those diamonds but you're going to see a couple of them in the next hour or so.

And let me give you a little bit of background about each. Art Parkos runs our Strategic Technology and Innovation Center. Art has been with Pitney Bowes for almost three decades, is that right, Art? Good.

He comes from our engineering background, has strong [benefits], and I, too, I mean coming from IBM, I feel like I'm in a reasonable position to make judgments about people's technology backgrounds and I will tell you Art and his team have real depth -- Okay, have real depth. Art not only is a respected leader inside of Pitney Bowes but also is a respected leader in -- outside consortiums that deal with innovation, in particular one at Sloan.

You'll then hear from James Buckley. James, I actually am glad that we had these meetings when I thought James came from Australia. James actually comes from New Zealand -- big mistake. So he's kiwi, don't screw him up, but he will not answer your questions.



James comes through our MapInfo acquisition. His interest and global experience -- and by the way, one of the things that you'll see across this four people is you'll see one American, one new Zealander, one Canadian and one gentleman from India. And I think it begins to underline purposely the global nature of Pitney Bowes.

James, as I've said, came from MapInfo, ran the services organization in Europe, one of the best thinkers I've seen in the industry in location intelligence.

Craig Reed who runs our commerce business, all right, Craig was a consultant [Manager]. Please don't hold that against him but I think it's -- it tells you about the quality of his thinking and came to us through an acquisition of Borderfree. Craig was one of the principals there. And you see that entrepreneurial spirit in Craig and it is invigorating not only to Craig's business in commerce but candidly across the entire company.

And then finally, Manish Choudhary. Manish runs our development organization in India which is now 600 strong and is recognized along with my previous employer and a couple others as one of the best technology companies in India to work for and that is a credit to Manish.

He was employee number one in India and I can tell you having been at IBM when we re-entered India for the fourth time in 1998, being employee one in India is a lonely endeavor but he's done it, he's built an incredible team, and again, underlying our global capabilities around technology and innovation.

So with that as background, Art, you're up, and then we'll go through this kind of one time.

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**Art Parkos - Pitney Bowes - VP - Strategic Technology & Innovation Center**

Thank you, Marc. So I'm very pleased to have the opportunity to talk to you about some of our differentiated technological capabilities that are in line with the growth spaces that Joe identified in his earlier talk. And what I'm really hoping for my goal is, is for you to come away with an understanding of how these capabilities provide us with unique advantage.

My name is Art Parkos and I manage our Strategic Technology and Innovation. It is focused on enabling business growth through differentiated technological capabilities and through innovation collaboration practices with our clients.

And in my job, I get to work with some really great people, some with PhDs in a number of diverse areas such as geographic information systems, computer engineering, social network analytics, theoretical physics and anthropology.

And when we get together, we had some pretty interesting conversations and we're actively seeking to include our clients in those conversations as well.

I'm going to be talking to you today about some of our differentiated capabilities that are -- we believed are truly, truly strong and truly are going to let you come away with an understanding of how we're going to be very successful in this growth spaces.

The first is secure evidencing, and Marc had referred to that as pbSecure; the second will be location intelligence; and the third, parcel management.

I'll give you a brief introduction into what this -- what the capability are -- capability are -- capabilities are, sorry, and how we got to our position strengths and why that matters. And I'd like to begin with the capabilities in our secure evidencing space and how they rose out of our postage evidencing systems.

Secure evidencing, a number of you may be thinking about a postage meter as the simple box that produces labels. In reality, it's far more interesting than that. As was alluded to earlier, we sent \$20 billion over wide area networks to more than a million devices, and we print currency in very small denominations in the form of postage.



And we have to account for every cent. This is what I think of, this is what you should think of when you think about a secure evidencing application. And we have built a number of technologies and capabilities in support of this system and our clients' needs.

And I think you'll also become aware of how these same sets of capabilities can be leveraged to a much broader range of secure evidencing applications well beyond the evidence of postage payments.

And here are some of the capabilities that I'm talking about. Early on, we developed one of the first e-commerce applications, sending money over wide area networks through remote devices. We invented the ability to produce proof of a transaction, proof of an event inside of a bar code using digital signatures.

We created the capability to remotely inspect a remote hardware device using cryptography and not having to go out and physically inspect -- and inspect that device for tampering. We have developed browser-based capabilities and the ability to build online transaction systems, truly understanding the browser-based technology and we continue that forward all the way up to HTML 5 and the capabilities of that [links].

And in 2012, you started seeing applications of pbSecure and this is where we're headed. When you think about pbSecure, we had done insights from our clients in emerging markets who are using our devices to evidence transactions and events well beyond postage payment, the evidence of tax payments, the evidence of travel insurance, the evidence of notarizing documents.

And in response to that, we created a much more flexible architecture that unlocks the space of secure evidencing and it gives us new markets and new models to apply our strong capabilities.

And if you look at the secure evidencing platform, it's got three major components. It's got a secure microprocessor device. It's a very cool device. It's tamper evident. It's tamper responding. It is the essence of trust in our systems and it's been certified by independent laboratories to be national security standards.

And we -- and this device also supports the USB interface natively, so could be embedded in any one of these devices over on the right-hand side or could be held in a server-based infrastructure and brought together in a configuration that puts many of them together.

And the beauty as well is that we also -- number two here, we have the remote data center and this allows us to manage the entire security lifecycle of these devices from cradle to grave, from the secure manufacturing facility all the way to the point where they're embedded in our systems.

This infrastructure allows us to send funds, it allows us to securely, remotely update, it keeps track of all the data that allows us to investigate the use of device systems, it allows us to turn these devices on and off. These devices have the real-time clock that allows them to operate even when they're not connected to a network.

And then as part of this flexible architecture, number three, the pbSecure API, this is an open programmatic interface that allows you to access the capabilities of these two combined. And now, we have a very open architecture that allows us to rapidly develop and deploy new evidencing applications, but the beauty as well is that we've made it sufficiently open that other people, other companies, other entities could be developing their own secure evidencing applications on top of these two. So we could in effect become the pbSecure inside to secure evidencing applications.

Joe had talked about an example earlier about diplomas, and that is around digital document fraud. The ability to create authentic-looking yet fraudulent documents is widespread. The software, the tools necessary to create those fraudulent documents are widely available.

Now, diploma is one application. I'll share with you a personal story. Anybody here affected by a tree in the past storms? Got one? So when I was outside after the storm, there is this massive oak tree overhanging my house, this branch that is about, I believed, crushed the corner of my house.

I'm thinking, "My goodness, I better get someone out here to take care of that tree." So I took out my cell phone and I started skimming through and I started calling people to see who could come out and deal with this imminent disaster.



And at about four or five tries, I got someone to come out. He drives up in my driveway and he's in his white non-descript van. He gets out, it looks like, you know, "he might be able to handle the job. He looks big enough."

And we're both looking up at that branch and we're looking at it and I looked over him and I'm like, "All right, do you have a professional license? Are you insured?" And he was, "Oh, yes." And he goes over to his van and he pulls out this piece of paper and gives it to me. I unfold it, I'm looking I think, "Gosh, I could have done a better job of producing this license than he do."

How cool it would have been. I took out my cell phone, I scan the bar code and the pbSecure verification service returns to me, "Yes, this guys is indeed certified. He is indeed licensed, go ahead and let him do what he plans to do." And he would have saved me a lot of heartache as I was watching him work on that tree.

Let me give you another example in medical and Joe referred to this. When you think about healthcare [on balance], you think about medical devices from the hospital environment, clinician's environment and eventually to the home, were they going to be unmonitored? A secure evidencing application could provide the trust, the control and the confidentiality in the data and in the device that have produced this -- that is producing the data.

And also we had talked about on the Smart Grid. When you think about ubiquity of network connected devices and the access points to the critical infrastructure, the so-called Smart Grid, a secure evidencing solution to provide trust and the integrity of the device and the data that it produces.

So those are some of the examples that we believe would be pretty interesting and pretty compelling and as we go forward when we're looking at opportunities in emerging markets as well as the North American market for secure evidencing applications.

So now, I'd like to move on to the second growth space, location intelligence and the capabilities that underlie our leadership position in location intelligence.

Now, you know, what do we mean by location intelligence? We defined it as the ability to organize and understand the complex relationships between location and other forms of data. In order to drive business decisions and the operative part of this definition is driving business decisions because that's what we do. We help our clients drive business decisions, so one of those capabilities that you would come to mind regarding this definition.

So we have a leadership position. For the past 30 years, we have been leading this space and we have been continually advancing the state-of-the-art through both internal technology developments, targeted acquisitions and strategic data relationships to build and sustain and maintain this leadership position.

And our differentiation arises from the tradecraft that we built up through all these years of experience and applying location intelligence to their risk business problems and geographies and through the way in which we sequenced and combined these fundamental capabilities to solve our clients' problems.

And how does it all start? It all starts with that fundamental position. It starts out with our geocoding capabilities and we have superior and multiple dimensions but I'd like to cover three in particular because these are the ones that really matter to our clients.

Number one, speed. We recently won a deal when the client asked us, "Could you successfully return a valid reverse geocode in less than 15 milliseconds for a transaction-based system?" More than 20 transactions a second. And then we actually did much better. We did it in 10 milliseconds and more than 100 transactions per second. Our algorithms are blindingly fast. That's very strong, very key.

And second accuracy, we receive higher accuracy to the application of multiple data sources that we've cleansed combining our location intelligence and spatial capabilities and our cleansing capabilities to receive that higher accuracy.



And -- and then with respect to global coverage, we are indeed global, we receive that global coverage through a differentiated ability that combines local data providers and global data providers.

And we achieve a leadership position to address international markets better than any other. And when you combine our data, our cleansing capabilities and our algorithms, we achieved higher coverage with greater accuracy than our competitors in the marketplace.

For instance, we cover more than 200 countries with our geocoding capabilities. And in 55 of them, we get that geocode down to the street and property level. And we cover more than 90 percent of the street level addresses and multinational corporate customer databases, and we leave it down to street level coverage.

Our clients consistently tell us that we deliver more reliably accurate results to any other competitor. And when we provide you with the geocode, we don't just tell you, "This is what it is." We quantify that accuracy. And not only that we tell you the assumptions that we made and coming up with that position. This is something that a lot of competitors don't do.

And while a number of competitors might come to mind that geocode reasonably well, they don't provide this. And we've had a number of clients switch over to us for that very reason, for instance, in the insurance companies.

And what it really boils down to is that we've got superior process, superior algorithms and superior in know-how. And what does this mean to our clients? It means that their business models will be more accurate because they're getting more accurate input into that, and that their business outcomes will be more successful due to this fundamental accuracy, but also our tradecraft in how to solve the business problem they're looking to address.

It's not simply about placing a point on the map. As Joe had said. And providers start -- need to be thinking about the devices that people are going to be using when they're accessing and processing this information.

Mobile devices, think about Smartphones and tablets. Customer mobile engagement will need to be context-aware in order to deliver a compelling user experience. And Gartner and Forrester both have highlighted the importance of context-aware technologies of the future, each on them making the top 10 list.

And when you think about context, location is a critical element, and if you start out with a highly precise location delivered up by our geocoding solutions, you're contextual awareness reasoning will be grounded and superior accuracy.

And that's what you need for that experience. You don't want to be wasting peoples' time. I don't know about you but I don't wanted receiving messages that don't matter to me. And I don't want to receive them when I can't add them. For that, you're going to need contextual reasoning.

And again, it's not about placing a point of a map, it's not about drawing a circle. We place the location and context. For instance, here's an example for a retailer. Is that person with a mobile device walking around New York and having a good time, are they about to walk in to the door?

And that's going to be a critical ability to differentiate between those two, or for marketers who what to send messages that matter when they matter. You know, is the local -- is the location context for that individual at a home or shopping or in the office?

I don't like any messages when I'm at work. I'm very focused on my job, that's exactly what I do, right, Joe?

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**Joe Timko** - Pitney Bowes - Chief Technology & Strategy Officer

Yes.



**Art Parkos** - *Pitney Bowes - VP - Strategic Technology & Innovation Center*

But I may be interested in the message when I am out shopping. That may be Okay, that could be a good time to send me a message.

And for those of you who have at least seven level badge in Foursquare for a coffee consumption as I do, we have here a map of all the coffee locations around the W Hotel. And again, it's not about a circle. Those are all segment, you know, by the amount of time that it would take to get there and that could vary by time, could vary by traffic and we could also bring in those -- the social elements as well. And so for those of you who have an urgent caffeine need or maybe you have a limited amount of time, you might make a decision differently based upon how this plays at.

And so how do we deliver these compelling experiences, how we deliver these capabilities to our clients? Through the spectrum technology platform, you see over on the far right-hand side, there is a -- there is a diagram of all the cell phone calls in a 24-hour period.

You can imagine that a cell phone company would like to combine that with dropped phone calls, transactional data, as well as social sentiment or there are all the tweets around the W Hotel from the other day between the time period between 9.00 and 11.00.

These are very disparate data types and potentially involve significant volumes of data. And we bring that altogether on the spectrum technology platform. It's a platform that combines data quality and location intelligence. It's a platform that's built on a graph database which means that it can integrate these various disparate data types.

We can combine social data, transactional data, spatial data altogether to create a holistic view of the client. Our clients can build these holistic views so they can drive those effective business decisions. It's a platform that's capable of addressing the challenges associated with Big Data. Graph databases are well suited for that. It's a platform that leverages our superior process, our superior algorithms and our superior know-how.

And now, I'd like to shift over to parcel management. Just as in location intelligence, we have a long history of providing parcel management solutions to our clients. We enable small, medium and large corporate customers to fulfill their shipping requirements to track packages, to deal with rating and routing, to deal with internally bound received messages and packages. And we built up a number of capabilities around that.

But how do we differ? For one, we've got an infrastructure that enables us to deliver these capabilities at scale. These are the same sets of capabilities built into here, the under layer capabilities in a secure evidencing space. These are the same sets of capabilities that provide the basis for our closest metering systems.

Now, I understand that the graph is really complicated but that's not the point. I apologize for that. But what I'd like you to take away is that, one, we are able to scale. We can handle an increasingly large number of shippers, carriers and transactions.

We've got a well-defined process and architecture to bring on additional carriers. And we've built up the interfaces necessary to interface to multiple e-commerce partners to extend our global reach.

When I started thinking about global e-commerce, there are a lot of complexities for that. How do we address the complexities associated with the global e-commerce? We use data to continuously innovate with our clients.

Now, when you think about the experience that a client is looking for when it comes to an e-commerce transaction, they want it trusted, they want it transparent and they want it simple.

And by trust, when I'm looking at this cost to ship these goods, is that going to be the final cost or am I going to be surprised at the end of it all? Or trust, is the package going to be able to be delivered across border or it is going to be held up in custom? I tried to ship some Christmas presents to my family -- my wife's family in Mexico. I can't tell you the things that I went through to get it through the border. They kept trying to convince me just so let them stay there and they'll deal with it.



But in that trust and delivering that trust, we use our data and our algorithms to deliver that trust to our clients. Algorithms, we have developed machine-learning algorithms. To help us address these complexities to take away a lot of the -- the specific handling than an individual might have to deal with.

And with machine learning algorithms, the beauty of machine learning algorithms are; is the more data you feed into them the better they get. And we have a [closed-out] system so we can understand when we got it right and did it, so could continually improve by virtue of the nature of the algorithms.

And what's really exciting to me is not only that we get better with every transaction that comes into our system, but that we can use data to continuously innovate for new client challenges that we put at the heart of our innovation cycle.

For instance, what if a client is looking to expand into global markets not just to ship goods cross-border but to gain an understanding of what's going on in the market. Where is the demand coming from, what goods are applying to what consumer groups and imagine when we bring together location intelligence for this as well, it's, very, very compelling.

And by virtue of our ability to get better with every transaction, with our ability to get that feedback and to understand the client challenges and get it into this continuous innovation loop, our sustainable competitive advantage gets better and better with every transaction, with every cycle.

And now, I'd like to go to a final clarification too. Each of these capabilities that I discussed, we've got years of experience, expertise, we've got data, and we've got algorithms, now imagine them when we combine them, for instance, if I were to take a location intelligence and our parcel management together, we could provide global market services, helping our clients not just to get goods cross-border, but to understand the interplay what's happening in various geographies and that enhance insight that we get into the world of cross-border commerce through our data warehouse platform.

What if we were to take our secure evidencing and parcel management and address the counterfeit problem where you've got high-value goods such as pharmaceuticals, automobile parts and network equipment? Combining secure evidencing and parcel management, we can create trusted chains of custody at every handle in the entire supply logistics chain to deliver authentic goods.

I'll leave you with one more, location intelligence and secure evidencing. We talked about context -- the additional context that you get associated with a location. Where is this transaction happening, when is this transaction happening, what environment is this transaction happening in, is it residential, is it industrial?

When you combine that additional context and bring into part of what we can authenticate in that secure evidencing of the transaction or the event, we've got something truly differentiated and something that we're very excited about.

So, I'd like to close by telling you that I am really, really excited and engaged and believed in this growth spaces. I am very, very excited about them. I believe that we have the tools, the capabilities, the algorithms, the processes but in the people and Manish will touch on the people. I can tell you that everyone in my organization is as passionate about these capabilities and these technologies as I am so that we can deliver effective solutions for our clients.

And I'm hoping that you're coming away with that same confidence and that same understanding of how our unique capabilities provide us with that distinct advantage. Thank you. And James?

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**James Buckley** - Pitney Bowes - SVP, GM - Customer Data and Location Intelligence

So, good morning. I'm James Buckley. I'm the senior vice president and general manager for Pitney Bowes location intelligence business. I'm actually really excited and pleased to be here today and get the opportunity to share with you some of the ways in which we help our clients and solutions that we deliver. I'm not going to talk but all of them but just pick some examples to give you an idea of what this business is really all about.

So I actually started out my career in this space as client of one of the companies that Pitney Bowes ultimately acquired to get into location intelligence as Marc said. And in fact, we were the first company to define ourselves as being in the location intelligence space. So we have a really powerful legacy in this industry and recognized and known and a great brand and great presence in that.

A lot of organizations around the world including, you know, some of the largest insurance companies in the world, major telecommunications companies like Verizon, MTN, T-Mobile as well as government agencies and many mining companies use Pitney Bowes mapping for professional product and our other location intelligence technologies to make those decisions that I talk about every day.

Our focus is on enabling those analysts to understand and bring together the kind of data you can see on the left-hand side to make those decisions and get answers. We use that same technology and put that into a process so that you can make a decision, will get an answer where location is a really important -- really important element automatically without you having to interact to that map or really, really deal with the complexity.

And then we also see, as I talked about and others have mentioned, this new emerging market opportunity that we're starting to see developed around social media and Internet companies and their broad communities of users especially where they depend on the Smartphone or mobile communities where we see an emerging market opportunity for our technology. We take our clients all the way from the map through to their mobile.

So, I'd like to start with some really fascinating examples of how we apply location intelligence to help empower and enable those analysts. Our location intelligence business from powering the analysts is built through on the map and for professional product.

This product has an ecosystem of software and data and services around it that helps our clients deliver actual industry-type solutions. It has 6 million deployments or more than 6 million deployments around the world. It's translated into 15 languages.

You can buy it from Pitney Bowes, you can buy it from one of our partners or as that general manager in Asia Pacific found a few years ago, you can pick it up for market store in Malaysia which is, of course, the ultimate flattery to any software company.

So I'm going to talk you through a few examples from specific vertical markets we're working. And like I said, this is by no means comprehensive. There are many, many other things that we do.

So first off, imagine you're a telecommunications network analyst. Your job is to really plan and look at the performance and coverage of your Telco network. To do that, you're bringing together your own business data, you're bringing to get the data from Pitney Bows, and using that data and applying it to our software particularly MapInfo Pro.

You'll get understanding current coverage and usage patterns and you're able to use that as a basis for then where should my mobile network develop in the future, how do I need to start looking at where I got these block spots and fill out that coverage.

You're also able to then use our other technologies to build detailed coverage maps that allow you to then, you know, deliver to your customers a picture of what their expected customer service will be, so where is that coverage going to be which really helps you in terms of the sales process, the retail process and then people understanding the level of service they're going to get out of their mobile phone company. Most of the major telecommunications companies in the world use our product.

Secondly, let's talk about another interesting example. This one always really fascinates me. Imagine you're a geoscientist, you're out there in the outback of Australia, you're using MapInfo Professional to really figure out where should I be looking at my next mining and exploration.

We have over 4,300 mining and exploration companies around the world that use MapInfo Professional everyday in 125 countries. Over 50% of the mining and exploration companies listed on the TSX use our technology to do exactly this.



You can see why this is so important. These decisions caused these companies to expand significant amount of invested capital in pursuit of all varieties of minerals. These are really high-risk decision and it's really important for these customers that our software is precise, accurate and available on time.

Another fascinating example is crime analysis. To help you see what I mean, the image you can see over here is concentrations of crime in the city of Amsterdam over 24-hour period. So intelligence agency analysts, crime analysts working for police forces around the world use our software all the time to figure out what current crime patterns are and how those crime patterns might develop in the future. And then, of course, they're going to figure out what are those law enforcement strategies, what are those crime prevention strategies.

Location is absolutely key in terms of this kind of process. So for example, you need to understand where street lighting is present in order to look at how you might limit or prevent certain types of crime.

Installing streetlight can have an immediate impact. The only way you can understand these kinds of issues is by having location intelligence, by having access to that spatial information to be able to see -- see these things in context.

And the final example, we saw in the strategic alliance agreement with Autodesk last year and the intent of that is really to look at how could we figure out or help our clients figure out how to build better infrastructure faster and drive faster economic development. So think about how those planning decisions are made that could be for small development or regional development or some set of larger pieces of infrastructure.

Infrastructure decisions and planning decisions like that can often take years to make. They consume a significant amount of the capital investment required to develop infrastructure. And in order to drive economic development faster, you need access to the kind of information to allow you to see what's the impact going to be on transport infrastructure, what are those long-term demographic trends, what's the impact going to be on the community.

So that software all over the world used every day helps people figure out how to build better communities and drive economic development. So this is really -- I'm trying to give you a picture of how our software helps analysts get -- make a decision or provide a recommendation using location intelligence.

So I'm going to give you another segment about Allied Business, which is really all about what happens if I want to make a location based decision in real-time. I don't want to have to deal with reading a map, I don't want to have an analyst involved in that decision. I want to basically ask a question, and I want to get an answer when location is a really important factor.

To help us understand what this is all about, I'm going to use the example of this \$11 million property here in the United States very, very close to the shoreline on the Gulf Coast.

This process is really all about assuring that highly accurate location, asset and customer data is available to an organization's business processes and real-time. This is our operational location intelligence business. It's built around our Spectrum platform.

Spectrum platform brings together our legacy and it also brings our future. So this is an incredibly important part of our business, and it's the fastest part of our software business.

We're recognized by Gartner as a market share leader in data quality. And this is really leveraging that 30-year continuous technology development we built up around both address verification and geocoding.

We have over 200 countries covered, as Art talked about our coverage and our accuracy. We know that we can provide more accurate coverage in more countries than any other company in this space.



So now to give you about context, what actually is geocoding and how does it affect all of us because it's something that we all use almost every day in our day-to-day lives. So you use geocoding every time you put an address into your smartphone, your satellite navigation system and it returns you some directions.

Now, when you think about that process, you often put an address. You don't actually get back the directions you want. We've all had that experience. We get an address returned somewhere else.

Now imagine if you're applying that same process in a business application and that process is, in fact, you have to do that billions of times a day and we have clients that use our technology to do exactly that. You can't afford to have that kind of error rate. You have to have much higher levels of accuracy.

In order to do a really great job of geocoding, which is quite simple, you're taking an address, you're using that address to derive a set of coordinates to locate a point on the earth or in reverse, you're taking a set of coordinates and you're getting an address.

Now in order to do that at the kind of scale that Art described to you earlier, you got to have three things. You got to have fantastic accuracy in the address, you got to have very, very high performance software and you got to have the data and intelligence to bring that together and see it in context. And that's what our Spectrum platform does for you.

So I just said we use this all the time and it's true. It's really about making sure that we can get that throughput, that performance and the accuracy all the time. Now back to our \$11 billion property.

So this is what we call our insurance heart attack image. As I said, located on the Gulf Coast, a few yards from the shoreline, what you've really got to do in order to understand whether or not to write an insurance policy for this is we've got to be able to do the calculation of where is that location, what is the elevation and how far is it from that shoreline to be able to understand that in the context of a bunch of identified perils, for example, hurricane tracks.

Our Spectrum Technology platform is used every day all around the world, certainly here in the United States by 24 of the top 25 insurance carriers to do exactly that kind of calculation all the time.

Spectrum built-up 30 years of continuous technology development and it's used extremely widely all over the world. This is just one example of how it's applied. There are many more, but I particularly like the insurance one because I think it really brings home the point.

So now, you know, as Art talked about, we're starting to see some of these new applications, the same I.P. being applied in different ways as mobile emerges as a new technology consumption paradigm. We all enjoy the benefits of this in our daily lives as citizens and consumers.

The Internet companies and social media companies provide us a mobile software, understanding location and context is really key to their businesses.

So you might have heard from -- if you follow Facebook, you would have seen their earnings call, they're obviously having a lot of success, as they said, around driving revenue around their mobile advertising platform.

So who here checks in using Facebook on their mobile phone? So I did that this morning when I got here. I used a reverse geocoding call in our Spectrum Technology platform, so it figured out from those coordinates where I was and I was at W Hotel in New York and then it pushed that onto my Facebook page. I used Pitney Bowes technology in that process.

Facebook is now processing millions of reverse geocodes of check-ins every day using Spectrum. With the announcement of Facebook phone, Facebook is going to be able to provide geo-relevant advertisements to its users all around the world.



So why did Facebook choose to become a Pitney Bowes client? Our global geocoding and reverse geocoding technologies are best of breed in terms of coverage and accuracy. Our products provide the highest level of precision with very low levels of false positive matches. So that means we will return more often than any other vendor in this space an accurate address or accurate coordinates.

Facebook was looking for a solution to help them create their concepts of place and event. Their Interesting Place concept is where a Facebook user is able to design a location based on where he or she is at and allow their friends to associate with that location or event, which is around a Facebook user who wants to organize an event, they create that event and then their friends on Facebook can follow that event.

We could have actually created this today as a Facebook event.

Facebook simply couldn't provide these features in their platform without geocoding. Based on Facebook's research, we were chosen with a vendor that had the required level of accuracy, precision and performance to give that fantastic experience to Facebook customers.

I just want to say from our perspective working with Facebook for the team here at Pitney Bowes has been a fantastic experience, something that's been really exciting and enjoyable for us, and we're really proud of this piece of business.

So just to sum up, I hope that I have given you a good sense of what our location intelligence business is all about. This is a substantial business. And Marc talked about innovation. We innovate every day in this business. And as we've come from empowering with analysts, giving them the tools they need to make those decisions, enabling decisions from many of our enterprise customers over the world around our Spectrum Technology platform and then now this new opportunity we see, which really is going to be helping us with these mobile companies, Internet companies and engaging consumers, we think that we're just at the beginning of the potential of this business.

We think really valuable I.P. here, this is an area that we want to invest in and we want to grow. And I think that as we see this changing market demand, we'll continue to innovate, we'll continue to drive value for our clients and for Pitney Bowes.

Thank you very much for your attention today, and I hope you enjoy the rest of the day. Craig Reed is going to come and talk to you about parcel management and ecommerce.

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**Craig Reed - Pitney Bowes - VP - Global Ecommerce**

Good morning, everyone. Craig Reed, I'm the vice-president of Global Ecommerce for Pitney Bowes. And today I want to talk to you about our cross-border ecommerce solutions, and I want to try and apply or help you understand and contextualized some of the technologies and capabilities that Art described to you earlier.

If I do my job correctly, you should come away understanding the significant business problems we're solving for our customers and why it's very difficult for them to solve them themselves, our unparalleled experience in this space and a little bit about our technology, how it works, why it's unique, and then finally how we plan to make some money. So a lot of heads just popped up with that comment.

First of all, I want to give you a little bit more of my personal background because this is very relevant to the story. As Marc mentioned, I'm a Canadian and I was one of the original founders of a company called Borderfree back in 2000. And the reason we founded Borderfree was because of our frustrations in trying to get US-based ecommerce goods.

I'm a bit of a technology geek at heart, although I got to say, I think, Art and James both have me beat with Facebook, and Art is like a 6-degree black belt in [coffee] or something, I don't know.

But I do love the [A.V.] here, and a lot of times it's only available in the states. And I had a lot of trouble getting people to ship to me. And those that did ship to me, we charge very high shipping fees, and on top of that I get charge duties, taxes, brokerage fees on delivery none of which I was expecting all of which could be significant.

And on top of that, I'd often get items stuck in Customs, I've had problems with tracking, so it's just a really bad buyer experience. And that was the original problem we set out to solve.

Pitney Bowes saw the same thing happening in the market. They saw the same opportunity and they acquired the Borderfree technology assets in 2005, which is how I came into the company. And that really allowed us to combine the initial start we got with the Borderfree landed cost engine and other technologies with a significant know-how that Art described to you and the world-class engineering capabilities that Manish is going to come talk to you about in a few minutes. It's really a unique combination and it's allowed us to carve out a leadership position in this space.

Let's go back to the problem I was having as a buyer. What did I want as a buyer? What do all cross-border buyers and seller want? They really want a cross-border ecommerce transaction to be just as easy as a domestic one. It's pretty simple, right?

If you're a buyer, you want to know how much you're going to pay. You want those costs to be reasonable. You want to get your item in a reasonable amount of time and you want to know where it is.

If you're a seller, you just want simplicity. You just want to use your existing shipping process to earn incremental sales. You don't want to have to do a lot of incremental effort to get at those customers.

But the problem is, there's a lot of friction there, as Joe mentioned. There's friction at the border. It's import/export fees, duties, regulations. You see the list there. There's a lot of things that get in the way. And that means that the promise of global ecommerce, which is to be able to get anything from anywhere from the comfort of your own home and the reality are two very different things. And that is the business problem that we solve for our clients and our customers with our software and with our services.

In the past and certainly when we start Borderfree, merchants could afford to focus more on domestic markets. They didn't worry a lot about international markets. I mean, let's face it. Domestic growth was very strong, a lot of opportunity, a lot of low-hanging fruit. And international markets were still in the early stages. But that situation has dramatically changed.

As Joe pointed out, the international markets for ecommerce are exploding. And the interesting thing is that it's coming from a lot of the developing markets so that BRIC countries, in particular, have been very top of mind for our customers.

And that means that if you want to maximize your business potential as an ecommerce player, you have to look beyond the usual suspects like U.K. and Canada. You have to go further a field and all of those markets are very, very complex to server. They carry a lot of complexity with them.

So if you're a merchant, what are your choices? You can choose to develop those capabilities internally, hire import/export consultants and experts and spread them around the world. You can try to build the systems and manage those systems over time to get rid of the complexity, but that's just really not practical for the average e-tailer. They need a trusted partner. They need a trusted intermediary.

It may surprise you to learn that more often than not, Pitney Bowes has been that trusted intermediary. In fact, we have processed and powered more landed cost ecommerce transactions than any other company in the world.

We have provided services to over 100 merchants including 45 of the top 100 Internet retailers. We're partnering with world-class platforms and marketplaces such as eBay. Our systems have generated over \$500 million landed cost quotes, and we've helped facilitate the delivery of over \$1 billion of goods to 100 countries worldwide.

And on the strength of those capabilities and that experience, we have developed what we believe is the world's best suite of ecommerce technologies and the deepest, richest, most averse database of ecommerce landed cost transactions anywhere in the world. And these folks is big data -- big data.



So just talk a bit about the customer problem, why it's hard for them to solve that themselves, I did a bit of a [yay yes] slide here. But let's here from a real-life customer, let's see it in real-life how they solve the business problem with our technology. So I'd like to show you a short video to demonstrate that.

(VIDEO PLAYING)

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**Craig Reed** - *Pitney Bowes - VP - Global Ecommerce*

Isn't that cool? I love that. Really cool merchandise, too. You should check it out. So not only can we provide services at that level to a merchant like Rickshaw Bags. We can play at the enterprise-level, too.

eBay is a really interesting example of the friction that's felt cross-border because if you look at the size of eBay, their global reach and the relative size of each of the merchants within that global community, it's very difficult for them to deal with the border.

eBay recognize this and they saw an opportunity to provide a service to their community and they reached out to Pitney Bowes to provide the solution. And that was a natural extension of our long-standing partnership as their trusted platform for postal services for their online postage service, but it was also a clear affirmation of our leadership in this space.

The program we're working on with eBay is called the Global Shipping Platform, or GSP. We have just exited a six-month pilot and we're now open to the entire US seller base shipping to 25 countries worldwide with plans to get up to 80 by Q4.

The premise of GSP is really quite simple. We talked about it earlier. It's to make a cross-border eBay transaction as easy as a domestic eBay transaction -- simple. eBay describes it to their community in those five steps shown on the slide or on your pamphlets there.

What I'd like to do now is take you behind the scenes and show you how the technology works and what we're actually doing at each step of the transaction so you can understand how we're helping serve the transaction and make it seamless for the customer.

The first thing that happens in any eBay transaction is somebody has to actually list an item for sale. And that's where our classification engine comes into play. It's the job of the classification engine to understand from the seller typing an item description, is this a doll or a dollhouse, a laptop or a laptop case, a DVD or a DVD player. It uses artificial intelligence and machine learning that Art described to do that.

And as you can imagine on eBay, that's very difficult because you can enter anything you want on an eBay listing, but it needs to be accurate because accuracy drives the rest of the process especially for cross-border.

Our classification engine's ability to take imperfect data sets such as eBay and classify them accurately in real-time is a key differentiator for us. It creates significant value for our clients and their customers and it's a technology that we believe we have a leadership position in. We're going to continue to invest in and have them investing in today.

I mentioned that accuracy is important. One of the reasons that accuracy is so important is because not everything can be shipped internationally. There's a lot of restrictions on what kind of goods can go to what countries. And not only that, a lot of those restrictions tend to be OGA, or other government agencies. There's import side, export side. There's carrier restrictions. It's very complex. And, frankly, you have to kind of experience and live it to really get all the rules straight and we have lived it -- truthfully, we have lived it.

And when you combine that experience and our database of transactions with our ability to accurately classify, that's allowed us to create a prohibited goods management system, and what this system does is screen out potentially problematic transactions before they occur. And that removes the potential for bad buyer experience, which increases customer value.

Now keep in mind that everything I just described is happening in real-time behind the scenes as an eBay seller is listing an item for sale. Once the item is actually up for sale on eBay, that's where our landed cost engine comes into play. It's a job of the landed cost engine to tell the buyer how much they're going to pay, so they understand what their cost obligations are going to be.

The landed cost engine takes the classification from the classification engine and combines it with predictive analytics that are based on our historical database of transactions to come up with an accurate assessment of duties, taxes, shipping charges, the all-in costs of the transaction.

And furthermore, on the strength of the accuracy we're creating we can actually guarantee those costs so the buyer knows exactly what they're going to pay at checkout. And that meets the key buyer criteria of cost certainty that we talked about at the outset.

So assuming that the buyer is actually OK with the cost, they want to complete the transaction, they go ahead and complete the checkout, that's where we're use another piece of Pitney Bowes technology, the streamline of transaction.

Our compliance portal takes the initial classifications from the artificial intelligence engine and turns them into fully compliant international classifications valid for import and export that we then broadcast to our worldwide network of customs brokers. That system lowers the cost involved, the training required and time it takes to do those classifications.

And not only that, it's a closed loop. And Art talked a little bit about it earlier. And what that means is all of those valid classifications, all those fully classified items go back into our database and inform future artificial intelligence calculations.

And we also add the rest of the transactions so it's also the duties, the taxes, all the shipping fees, sizes, weights, every element of data from every transaction goes back into our database and informs our machine learning and artificial intelligence algorithms. That's how we get smarter transaction by transaction. That's why Art is so excited.

So let's review where we are. So we've had -- an eBay seller is listing an item for sale on eBay. We have classified it. We have identified any restrictions it might apply. We have shown the buyer their cost. They have agreed to those costs. And we sent to our compliance portal. It's fully classified. We have broadcast it to our network of customs brokers worldwide, so the virtual part of the transaction is now complete. And now the physical part of the transaction starts.

All the seller has to do, the US seller, is ship it to us domestically in the US That's it. Simple. And that was the key for them. They want to keep it simple. They didn't want to have to change their supply chain.

So they ship it to us in the US We receive it as a domestic inbound parcel and we use another Pitney Bowes system, and I hope you're catching a bit of a theme here to turn it into a fully compliant international outbound parcel.

From there, we work with a network of best-in-class customs brokers, delivery agents and mile carriers, a whole bunch of partners to get the goods to the buyer cost-effectively and with higher reliability.

At the same time, through that entire chain, we're aggregating all the data back into our system so we can provide a unified end-to-end view of the transaction to the buyer and the seller, and we publish that back to eBay. So if the buyer or the seller log on to my eBay, they can see where their item is. All the complexity remains behind the scenes. That's another area we believe we have a technical advantage and which we're continuing to invest.

So I'm sure by now we have a room full of analysts is wondering, "Okay, Craig, how do you make money?" Well, I'll tell you.

It's really quite simple. We make money in two different areas. We earn a technology fee from the virtual part of the transaction that I described and we earn revenue from the shipping and handling process. And we believe that the combined software and services model will generate significant revenue growth for us going forward with healthy margins as the volumes continue to grow.



And while we've been investing in the landed cost engine, the classification capabilities for some time, we have more recently started investing more in our back office capabilities, in our parcel handling capabilities, compliance engine and so forth to allow us to really seamlessly scale up volume. And we're planning to get to profitable [scale-ins] business over the next 12 months. So how do we do?

As I hope I've demonstrated both through the Rickshaw Bags example and from the eBay example, we have really taken the friction out of the border. We have made the problems go away. We have turned a very friction-filled cross-border transaction into a seamless domestic-like transaction. It's allowing sellers to earn incremental sales without incremental effort and its giving buyers a good experience.

You know, I mentioned at the outset that I started in this business in 2000. I guess, you can consider me one of the pioneers.

I can honestly tell you that I have never been more excited about this business than I am right now. The time is absolutely right. And I believe I'm in the right place. I think Pitney Bowes has the best chance to win in this space. We've built the best team, hundreds of man-years of experience. We've got the best technology, and I believe we can keep that lead. We partnered with world-class e-tailers, one of the world's biggest marketplaces in eBay, and we're doing it all in a very large high-growth market.

And probably the most gratifying part for me, personally -- you've seen my stories -- that we're solving a very real business problem for our customers, a very real and a very difficult business problem. And if you're bit of an entrepreneur like I am, it just doesn't get any better than that.

Thanks for your time, everyone. I believe Manish is up next. Thank you.

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**Manish Choudhary** - *Pitney Bowes - VP - Products & Solutions, Worldwide Product Development, Managing Director - India Operations*

Good morning, everyone. My name is Manish Choudhary. I'm the vice-president for Products and Solutions for Pitney Bowes Worldwide Engineering. I'm the managing director for our India operations.

Today, I'm going to talk about the global technical talent it takes to win in a fast-changing technology marketplace.

A little bit about my background. I lived in India, I lived in US I studied in Singapore, Shanghai. I have a master's from Ohio, I have an MBA for UCLA, and I did my executive education at Harvard Business School.

I've been in Pitney Bowes for 14 years, primarily based in Upstate New York. And for the last five years, I moved to Delhi to setup our India operations as the first employee, as Marc said. At heart, a software engineer who gets what it takes to beat the competition in technology.

Today I'm going to focus on global engineering. This is where we execute all the technologies you've heard in the early presentation. And I'm going to illustrate an example of our success in India that's building a strong technology culture and how does integrated global organization is really providing a competitive advantage to Pitney Bowes.

We have 1,300 engineers globally in 10 different locations and four continents. Our Global Technology Center in Danbury, Connecticut, is a 300,000 square feet of open lab environment where we have engineering, product management, I.T. and many other functions under one roof. We have 480 engineers in North America, 166 in Europe, around 50 in Asia-Pacific and 630 strong engineering team in India.

Proximity to clients, collocation, concentration of our technical capabilities are some of the reasons explaining our job within distribution. And later in the presentation I'll talk about how will innovators from North America are working with our innovators in Europe, working with our innovators in Australia or India really coming together as one strong global team trying to solve problem for our global clients.

They're organized around key areas of core competencies, as you've heard, location intelligence, parcel management, secure evidencing, communication management, production mail. These are the areas where we have very strong technical depth that you've built for years. We've heard James talking about 30 years.



We have world-class software engineering processes like (inaudible). We have practices around user experience, database, security, social, cloud, mobile and many more. Putting it all together puts us in a very unique and a strong position.

Now let me illustrate an example of our success story in India, which is about building a strong technology center. We have a remarkable success story in India.

We started our operations in 2007. We have expanded and moved four different offices, adding functions like consulting, professional services, global technical support. And in 2012, we opened up a new R&D center in a location called Pune.

Noida and Pune are key locations, the two technology hotspots in India where large multinational companies have their R&D centers.

According to a consulting firm called Zinnov, 50% of Fortune 500 companies have their R&D centers in India. 22% of global technical talent pool exist in this country. We have a 630 strong engineering team in this country across multiple functions.

We have our engineering organization where we have engineers working on 45 different products across multiple domains. This is the largest engineering center we have globally where we have collocated teams across most of our core competencies. And that's a significant advantage for us in order to reuse, collaborate, act fast and innovate fast.

We have access to the best technical talent possible given our presence in the two technology hotspots, and we have been able to create a very strong plan for Pitney Bowes, which I'll illustrate in the next few slides.

Another way to interpret our fast growth in India has been our ability to build teams faster and be scalable. We heard Craig talked about the cross-border shipping platform. We have engineers in India working with our engineers in the US, working with the engineers in Canada all coming together in different time zones almost on our 24-development cycle trying to solve the problem and innovate for eBay.

We have engineers working for Telenor in Asia, data integrating, location intelligence and business intelligence together for Telenor to manage its sales cycles better.

We have our professional services and support teams who are working across 30 different countries solving problems for our clients. For example, we have Telstra in Australia. There are engineers that are integrating location intelligence solutions using [mapping for professional], which we heard, to have them manage the telecom infrastructure they do on Home Depots or Denny's where we have predictive analytics and location intelligence together to have both of them manage the site selection they do, on Guy Carpenter where we are using location intelligence to do risk management with that.

So these are examples and there are many more examples. There are technical talent across the globe is coming together and delivering solving problems for our clients.

Let me give you an idea of the maturity of the center. Last year, Zinnov conducted an R&D assessment study looking at maturity of R&D centers in India. Zinnov rated us in high-degree of maturity and engineering leadership.

Now let me explain what it means. It means product ownership. It means a very strong understanding of our key core competencies and maturing talent pool.

If you look at the chart here, we've got companies like SAS, SAP, EMC, Yahoo!, Google, IBM, very credible software brands who have been present in India for a long period of time. They have been able to get there in a very short span of time. It's a very strong point and we are in good company.

While we are doing this, we are constantly benchmarking our sales on the cost side. We are 50th percentile in cost compared to our peer group in the country. We're growing it around 6% to 9% every year with half the cost of India-based outsourcing companies, and we are fourth of the cost compared to the cost in the best. But that's not the main reason why we are here.



To us, it was about building a strategic technical asset (inaudible), which is providing us strong competitive advantage and it's also closest to the two largest economies, which we have heard in the early presentations, and to take a leadership position in the technical community. That's what we were able to achieve. As I said, we're a strong company. We have a very strong competitive advantage.

Talent, talent is the biggest asset we have. We say in India, our asset walk out of the door every day, and we have to ensure they walk back in the next day. And when they walk back in, they're energized, they're motivated.

We think talent is a strategic differentiator for us, really held us in managing the competition for talent. As you know, India has a vast talent pool, yet a small percentage is employable. The best of the companies are trying to get the best of their talent, almost creating a wall-like situation here. In India, it's truly about for talent.

Five years ago, we had no presence. As the first employee, as Marc said, it was difficult to get people come in for an interview. Today, they are forced to reckon with. Today they're on the most respected engineering brands in India. Today we have the best engineering talent approaching us, and we have the lowest attrition rates.

Our talent management practices, our right environment, our diversity and inclusion practices and many others really differentiated us in terms of an employer and in terms of brand in the country. As I said, we are in good company. We have a strong competitive advantage. We have a strong talent pool. And let me give you some evidence of our success.

Over the last three years, we have won 14 different national and international awards -- Great Place to Work 2010, 2012; Aon Hewitt Fortune Magazine Best Companies for Leaders. And this was across Asia-Pacific. Dataquest, which is one of the oldest and the premier software award in India listed Pitney Bowes as Top 10 Software Companies to Work For, three years in a row.

And we have been climbing ranks every year. Top 5 in Diversity and Inclusion by NASSCOM, which I said is a strong differentiator to attract manage retail talent; Asia's Best Employer and many more. These are all very credible names to get the awards for.

The analysis shows the best companies to work have 50% less turnover and three-time better performing. We see that in our turnover rates. We see that in our cost advantage, and we see that in the success we've had in India so far. As I said, we're in a good company, strong advantage, strong talent pool and the awards.

Now let me give you examples of what we really do, what we create as a global organization.

I talked about how our innovators from across different countries are coming together and solving our clients' problems. James talked about geocoding. We have engineers in US, many locations in Europe, in India, in Australia. They know more about streets, addresses, data, driving directions and every country, every region, they're very different.

All of these engineers coming together, sharing resources, sharing knowledge, sharing practices, really working together as one team expanding the coverage on our geocoding.

Now that's what we achieve in our ability to react fast and scale as one organization. We have engineers across the globe from solving problems from Brazil to Russia, to Singapore, to Saudi Arabia and many more places. This global model has really enhanced our ability to take risk at low-cost. We can experiment. We can innovate fast and we can really activate at-scale as one organization.

To sum up, I will leave you with three parts. We have a global technical talent pool already built and is working now. We have cutting-edge software engineers who are pushing boundaries every day to add value to our clients. The future looks bright because the technical community has been put at the heart of the company. And to a guy like me, that's exciting. Thank you. So we will have 10 minutes short break. Okay. Thank you.

(BREAK)



## PRESENTATION

### Unidentified Company Representative

Ladies and gentlemen, we'll start again in two minutes. Please begin to take your seats. We'll start again in two minutes. Thank you. Ladies and gentlemen, please welcome Pitney Bowes Executive Vice President and Chief Financial Officer Mike Monahan.

### Michael Monahan - Pitney Bowes - EVP, CFO

Wow, I get applause before I even start. I think I'll stop now. I want to welcome you back from the break. It looks like we still probably have a few people out there, but we'll get started.

What I want to talk to you about is really a framework for pulling all of this together for you in terms of a financial model about what we're doing, as Marc laid out, over the next three to five years. And that's really the time horizon in which we're looking at this.

There's really three elements to this. The first is an operating model. And to go back to what Marc said earlier today, this is really about a balance of efficiency and growth, the efficiency across our core businesses, our core mailing business, our enterprise businesses, and then focused investment in the growth areas around digital commerce solutions.

The second piece of this is about operational excellence so that is about enhancing the client experience, it's about enhancing the value proposition to the client, but it's also about continually lowering the cost to deliver that value proposition. We are doing this built on a proven track record. We have done this before in terms of reducing cost in the business while enhancing our infrastructure and we can continue to do that.

The third element of this is about capital allocation. Marc described it upfront, taking a very balanced and disciplined approach to how we're going to allocate capital.

The recent actions we're taking have really left us with a very strong balance sheet and we think a good position to both finance the business as well as manage our debt profile going forward. So visibility and flexibility is what that's all about.

So let's go to the operating model. We described that each of these business groupings have a bit of a different business model to them. We want to use those portfolio characteristics to really define what we're going to do in each of those businesses.

So those priorities around digital commerce investment, it's around commerce both ecommerce, which you heard Craig talked about, but also shipping as a broader opportunity, location intelligence not only from the geocoding and mapping traditional products, but in the social as well as mobile environment as well. And then secure evidencing is really earlier stage and one that will continue to look at opportunities to expand the new markets.

From an operational excellence standpoint, what are we going to do? We talked about client experience. Marc talked about access and the opportunity to really align our channels with where we have opportunity, and that's not just to serve our existing clients, but it's also to better serve a broader set of prospects that are out there.

We're going to expand our global shared services leverage and that's going to be one of the key tools driving our cost structure going forward. That's going to include really streamlining processes, standardizing them and so we could leverage some of these new businesses on the platforms we built for our traditional businesses.

So let me break it down by each of the three business groupings that we talked about.

In terms of the SMB business, our traditional mailing business, today that's about 50 percent of our overall revenue base. So years passed, it was a much bigger percentage. Today it's about 50 percent.

Joe defined end markets really defined by mail volumes and postage meter installs that would decline 3% to 5%. So what we're really focused on are key milestones of things that we can drive in these businesses and the SMB business, in particular, to buff that trend. The first is driving recurring revenue stream stabilization or continued moderation in the decline of that. And I'll talk a little bit more about that, driving those operational excellence savings, those will allow us to continue to leverage margin in this business.

In the last two years, both 2011, 2012, we actually increased EBIT margins in our core SMB business despite revenue decline. So if we can lower the rate of decline in that SMB business, we have an opportunity to really leverage the margin.

The enterprise mail and services, again that's pre-sort, the production mail business and our management services. There are about a third of our revenue base today. The end markets, the composite of what Joe described is about 1% to 3% growth in those markets so there is growth opportunity around our key milestones. It's to drive revenue positive in those businesses, and I'll talk a little bit more about what the drivers are behind that. Likewise, we have opportunities for savings in those businesses. And again we see opportunity to leverage that into margin improvement.

In terms of the digital commerce solutions, only about 15% of our overall revenue base today, but obviously, the end markets have a lot more growth opportunity.

You see 15% to 18% in terms of the markets that Joe described earlier. There are sub-segments of that that have higher growth opportunity. And we certainly have elements within that where we are in early stages so the growth opportunity for us, our percentage bases, is quite high.

We are looking to drive from a milestone standpoint at or above market growth rates in these businesses. We're making focused investment in products and in the go-to-market. Craig talked about investment we're making in ecommerce as an example of that. The opportunity here is really to drive scale. And we drive scale, we will drive margin that can be added to the consolidated margin of the company.

So let's talk about stabilizing the core mail business and what the drivers behind that are. And I know one or two people on this audience has had interest in this over time, right? What are you doing with that mail business?

So, let me lay they're some of the things here that I think are really important to understand. What this graph shows is recurring revenue streams for the North American mailing business over the last three years and actually projecting 2013. Recurring revenues in this definition is rentals, financing and supplies revenue. That makes up 60% of all the North American mail revenue, so it's an important indicator of what's going to happen with that revenue base going forward.

You can see back in the first quarter of 2012 there was an inflection point. That inflection point really reflects the fact that the rate of decline in the recurring revenue streams had really hit bottom, and we started to see an improvement in that rate of decline since that point.

Through to the first quarter of 2013, we've seen significant improvement net rate of decline. And we're projecting -- and this will be plus or minus, the dotted line, that will continue to see improvement in those recurring revenue streams.

They asked me why based on the end market data that Joe showed. And the reason for it is a couple of things. One is we've been through a full cycle of the lease base turning over post the recessionary period. So now we're comparing periods that are much more similar in terms of what was happening in the lease base and what was happening in terms of our sales activities.

The other important element here is we have been placing a higher percentage of new equipment relative to lease extensions. And the importance of that is new equipment influences those recurring revenue streams of rentals, financing and supplies, and supplies in the sense of we now have equipment that prints more on the face of the envelope, color not just the indicia, which means opportunity for enhancing those revenue streams.



In addition to that, you have heard earlier that the meter base is growing in Canada in addition to the rate of decline in the US business has diminished as well. International, which plays into our total SMB revenue base, you see the European meter base is growing. The other thing I'd note is that in the international space, which is dominated really by the European market.

Our 2012 revenue base was flat to 2010. So over that three-year period, revenue has been essentially flat that's because we've been launching new products like Connect+ in big markets across Europe that's driven performance beyond the overall market dynamics. In addition to that, we have diversified some other revenue sources within Europe. And as Joe noted, Brazil and India posed interesting incremental opportunities to continue to help drive the international mailing revenue base.

So some key drivers that are allowing us to show improvement in those recurring revenues.

Let's look at some of the elements of the enterprise businesses because they're an important part of growing our business overall as well. And we hear a lot of talk about first class mail volumes. And what I have done here is compared each of these businesses to first class work share mail volumes over the last five years and show that relative to our revenue performance in each of those businesses.

Let's start with presort. We have had sustained growth in presort between 2008 and 2012. That's despite the fact that first class work share mail volumes have come down significantly. Why is that? There's a couple of things.

One, we continue to capture share in that first class pool of mail. But more importantly, we have taken that network. We have leveraged it and we're growing in standard class mail and capturing share.

Joe talked about 6% share in the standard mail market. Another way of looking at this is only about 15% of our revenue in the presort business comes from processing standard class mail so the dynamics in that space allow us the opportunity to continue to attack that slice of the market.

In addition to that, having the only true national network placed to our advantage when we look at implementing technology against intelligent mail barcode and other opportunities that are coming down the pipe for us to capture more of that mail.

When you look at production mail, it's a bit of a different animal. Between 2008 and 2009, the drop in revenue there is less associated with mail volume and much more associated with the capital investment strategies of our largest customers. Not surprisingly, we have a lot of financial services customers. They communicate a lot with their customers through mail. Between 2008 and 2009, they pulled back on capital investment for very obvious reasons many of you appreciate.

We saw between 2009 and 2012 that our revenue actually increased a bit, but over that three-year period is down only low single digits over an entire three-year period. That's despite very significant declines in first class work share mail. So why the difference?

One, Joe described the white paper factory. Our value proposition is just broader than it was before. It includes other elements like print in that end-to-end value proposition. I talked about the first quarter results having a meaningful contribution from print in there. So we're broadening the value proposition.

That consolidation of mail as a challenge for us in the business is also an opportunity in the sense that we are the largest provider for those third party service providers for whom are consolidating a good portion of that mail.

Management services, we compare to first class mail volumes here, but it's probably got the least relationship even though their chart looks like it's the closest relationship. The reason for that is management services generally deals with inbound mail, not outbound mail in corporations. And mail is only one piece of their total business. They have seen contraction more related to the economy as a whole and digitization of documents not necessarily mail.

We have a new management team in place built over the last couple of years. Their focus has shifted to technology-based solutions like customer communications management, DMS and print outsourcing. You heard that those are end markets with growth opportunities in them.

Management services, we had our first quarter of growth during the fourth quarter of 2012 since 2008 and it's really as a result of shifting the focus in that business and building a pipeline in technology-based services versus labor-based services.

So how do we put this together in terms of how we look at over the next three to five years? What are we going to do to grow in Pitney Bowes?

And what I tried to reflect here is really a view of the business from a market perspective taking those end market views growth rates that Joe described, looking at the margin profiles of those businesses and applying them to our business today and seeing what they would look like three or five years from now.

In this we reflect that 3% to 5% decline in SMB although we believe we have proven we can grow better than that.

Enterprise mail and services, we are growing and there is opportunity to grow in the end markets. And certainly, the digital commerce solutions can provide significant growth when you see end markets with double-digit growth rates. So we believe the composite of that same portfolio that we have today will provide low single digit long-term revenue growth. And then our opportunity is to outperform those markets.

When we look at EBIT margin drivers, it's even a better picture. The SMB mail, as I said, we have increased margins over the last few years. I'll talk about the actions we can take to continue and enhance those margins going forward with a better revenue profile.

Enterprise mail and services leveraging operational excellence as well on top of that modest growth can give us EBIT margin leverage. The digital commerce solutions, the red and the green combined, reflect the fact that we are investing early on to grow some of these.

We talked about ecommerce and the opportunity there. I spoke to the fact that we spent \$4 million in the first quarter to invest incrementally in ecommerce. That's to build out the infrastructure to support the growth we see in the top line. We have invested incrementally in Bali again to develop a technology that we see as having long-term growth contribution.

But the end markets that these businesses are in have margin profiles that as they scale will add incrementally to the margin on a composite basis. So we see even margin leverage of at least two times or more against the revenue outlook.

So let me shift gears a little bit here and talk about operational excellence and how we're going to continue to drive cost from the business. We are building this on a proven track record. We are aligning with our business strategies as Marc said upfront. The actions we'll take in each business will be consistent with the business model that they're running. We're broadening our go to market channels and also reducing the cost to deliver that sales experience to that customer and advancing global client services, which is really about bringing together the infrastructure to support our customers and way that improves their experience with us and lowers our cost.

In terms of what we've done, we have a proven track record of doing this. We have taken almost \$400 million out of SG&A since 2008 through the first quarter of this year. But at the same time we have created some capabilities we have invested back into the business.

The global R&D organization that you heard about was built as a result of addressing the integration of our engineering organizations. We built a technology platform in terms of data centers and voice over I.P. that are leverageable assets that we can continue to drive cost out of our business.

We have implemented broad functional shared services and now we're focusing on client-facing shared services. We have upgraded a number of our operational systems, particularly in support of sales and our service organizations. And as Marc said, we have continued opportunity around the back office integration. In total, we have invested about \$200 million back into the business over this timeframe and those are investments that still have a lot of opportunity to be leveraged.

People have asked me, "Mike, can you take more cost out? It seems like you guys have done a lot. And I know there's a few people here has heard the story of an analogy of a baseball game. So I like to think, as a CFO, I'm constantly in the sixth inning, right, of cost. We never quite get to the seventh inning stretch, which I'd like to get to at some point, but it's really about the fact that you still have a long way to go. You have a lot of opportunity and we're looking to seize that opportunity.



Marc talked about doing this based on team built for success and we have people in our general managers who know how to run businesses where they are in their lifecycle. We have people like Kevin Connolly who has worked in virtually every element of the customer-facing infrastructure across Pitney Bowes and now will help us bring that together in one organization and Joe Schmitt who certainly has had a great experience integrating these businesses.

From a channel capability standpoint, the blue circle is really important, low-cost client-specific contract strategy. We believe we can actually reach our customers more frequently with more targeted offers at a lower cost and that using the right partners and dealers and alternative channels, we can reach new prospects on a variable cost basis that we couldn't reach before.

Better leverage our inside sales organization. They have been the organization that's driven a lot of our lease upgrades. They have the opportunity to do more with our customers.

And certainly from the web and digital standpoint, we have barely scratched the surface. Increasingly our smallest customers are asking to buy and transact with us on the web and adding that capability is a real opportunity for us.

In terms of global client services, this is about bringing together all of our call centers, our supply chain, our field service organization and our information technology organizations to really blow it together that end-to-end process and how we interact with that customer. What that's really going to do when we combine it with the data and technology is allow us an integrated multi-channel approach. It will give us better business analytics about what our customers want from us and how we can serve them more efficiently.

The order-to-cash opportunity that Marc described will really be enabled by bringing these organizations together and streamlining that. And there are certainly a significant manpower productivity opportunity that comes from integrating these things into single processes.

So what does that get us? You're not excited about the next slide? Wow. Give that person a cup of coffee, will you?

Let's talk about cost out, right? Now this is the part we stop yawning and start getting excited, all right? We see a 2015 run rate savings opportunity of \$100 million to \$125 million. And I put that in a context of a team that's been on the ground just a few months, in some cases, a few weeks but have -- have come together and identified pretty significant savings opportunities.

And as Marc said, this is an ongoing process, but we have identified these opportunities. We think the estimated accounting cost associated with doing this is sort of 75% to 100% of the savings that's very consistent with what we've seen in prior programs. The absolute amount will determine based on the portfolio of actions we end up taking and the mix of what's labor and other assets and those types of things. We'll probably start by taking a modest charge in the second quarter and we'll take the other components as these programs are finalized. The total cash outlay for that is about \$75 million to \$100 million over the next two years.

What I'd highlighted on the actions, I touched on a number of these things, but just to reinforce the comment Marc made earlier, the last one about aggressive working capital management.

When you bring all these customer-facing processes together, you find real opportunities to be more efficient around how you manage inventory, how you manage receivables. And with a target of \$100 million of working capital improvement over this period of time, that can essentially pay for what we need to invest to get the savings.

I'm going to shift now to capital allocation, sticking with the theme of a very balanced and disciplined approach to this. Marc talked about the balance sheet optimization and our focus on investment-grade ratios.

For those in the room who are parsing words and looking for -- you used to say investment grade ratings, Mike, and you said investment grade ratios. The change in the language was intentional. It's what we can control. We don't issue ratings. What we want to do is achieve the ratios that keep us those investment grade ratings.



In terms of organic investments, you've heard all of the opportunities that we have in front of us. We're focusing our investment on those areas for growth.

Restructuring, I just talked to the cash, relatively modest cash to achieve significant savings.

Dividend, we have what we think is a very competitive dividend against our peer group and against the market as a whole. And going forward, we have the opportunity to have that dividend reflect the success in the business.

Share repurchase is an opportunistic tool for us. And as Marc described, acquisitions and divestitures are really a way for us to change our portfolio and use those tools to focus our resources on the areas we can see as greatest opportunity.

We talked a little bit about the cash uses in the business because we have been rebalancing how we use cash in the business. The dividend, we used to pay out about \$300 million a year pretty consistently over a long period of time with the change in the second quarter. If we really extend that out over the rest of the year, we would pay out about \$188 million in dividends in 2013 and the annualized rate of that is \$150 million. So that a \$150 million of free cash flow that we have the flexibility to invest in the business, where to further manage our balance sheet.

In terms of capital expenditures, we invested about 3% of revenue and capital expenditures. And what you need to understand about that is it's sort of 50/50 between postage meters, so equipment in our core business and about 50% in traditional infrastructure investments -- I.T., facilities and the like.

As we look at the business going forward and that used to be a much higher number in the past. We brought it down. And as we look forward, our business will be more software and services as you heard from the discussion today. And therefore, we expect a flat to actually declining capital expenditure requirement in the business over time because of less dependence on equipment on one hand.

More importantly, we've been very focused on driving an agile workforce strategy, meaning we have significantly fewer office buildings and factories and those types of types that we had in the past. We're putting technology in people's hands that allow them to be closer to the customer and work where they are.

In terms of voluntary pension contributions, we have three major defined benefit plans in the US, the U.K. and Canada. The plans are for all of those major plans to be totally frozen by the end of 2014. That means a real clear line of sight of our obligations going forward where we've made voluntary contributions in the past. We anticipate those to be quite modest going forward because we know what our liabilities are.

US Plan, which is by far our largest plan, we're 92% funded at the end of 2012. We've been implementing an asset strategy that are aligning our asset maturities with our liability maturities over time. So we see limited incremental pension contribution requirements as we go forward.

Obviously, whatever the markets do the markets do and we'll adjust accordingly, but based on our current line of sight in terms of restructuring, cash investments, again coming down off of some highs in the strategic transformation program and continuing at a relatively modest level.

Looking now at free cash flow, I get a lot of questions about looking at free cash flow over the last 3 or 4 years. It looks like it's come down significantly. And I think you have to adopt a broader horizon to really understand cash flow in this business.

If I go back to the last decade, the earlier to mid part of the decade, our average free cash flow in the business is roughly \$550 million. And the reason for that was we are investing in finance receivables in equipment and putting more of our cash flow into that base.

As we got into the middle of the decade and into the recessionary period, we saw a reversal. We saw more of our cash flow being generated by a run down in that asset base, in that finance receivable base. And so we saw a big spike up in our free cash flow.



We're now in a period where we're seeing the moderation of our recurring revenue streams, an element of that being finance receivable-driven coming now to a more stable base in which case we expect less excess free cash flow to be thrown off by finance receivables. And so we're seeing a reversion of our free cash flow to a more normalized level.

We have opportunities around working capital management, around reduction in the uses that we've had. So we see a very strong sustainable free cash flow generation over the next several years, which brings us to the debt portfolio.

If you look at our debt portfolio, again between 2008 and 2013, we're at \$4.7 billion of debt back in 2008. 2013 assumes the pay down of \$375 million of debt that comes due in June. We plan to do that with cash available on the balance sheet.

At the end of the first quarter, we had over \$900 million of cash in our balance sheet. And so we're assuming in this scenario that that will be paid down in June.

If you look at that then, we have taken now more than \$1 billion of debt over this period of time. We have linked that reduction in debt in many ways with the change in our finance receivable base. That's the red line across the top. That's come down \$800 million over that period of time.

We tend to look at our debt as being allocated in two portions -- the part we associate with the finance receivables. We apply a 10 to 1 debt-to-equity ratio for our internal calculation. The reason we do that is those finance receivables throw up a very significant and a very dependable cash flow stream to service that debt.

That leaves us with remaining corporate debt in 2008 of about \$2.1 billion. We have managed that down now to between \$1.7 billion and \$1.8 billion.

So the next logical question is, what's the maturities on that and can you fund your business over the next three or so years? And the answer is very much so. We can fund our business and we can make investments in our business.

The \$375 million you see coming due in 2013, as I just described. We will pay with cash on the balance sheet. We issued earlier this year \$425 million of 30-year retail bonds with a 5-year callable option at par. We then tendered for debt that was coming due in 2014 through 2016. The amounts that we took out of each of those maturities is represented by the dotted line boxes. That means in 2014 we have remaining only \$302 million of debt coming due.

In 2015, we have a total of \$325 million that's \$275 million out of the issuance that's coming due and \$50 million of term bank loans that are coming due.

The \$50 million and the \$180 million that you see in green are loans that we can pay down at any time without penalty. So we have additional opportunities that continue to manage maturities as we go out.

So we have a line of sight. We obviously have the opportunity to go back to the debt markets. Marc talked earlier about seeing an improving view from CDS spreads standpoint. So we feel we're in a very good position.

As a reference point, I took the midpoint of our guidance range for 2013 of \$650 million. If you apply the dividend run rate of \$150 million, that's \$500 million of free cash flow. That's before restructuring. But as I said even in the near-term, working capital activities can support our restructuring efforts. We believe we have more than enough cash available to meet the objectives of investing in our business and managing our balance sheet.

So let me just wrap this up, three elements, operating model. It's about driving top line growth through the mix of businesses that we have. We can leverage that in EPS growth by two times or more as we go out and achieve our operational excellence targets. We've set a target of \$100 million to \$125 million of cost out as a run rate by 2015.



And in terms of our capital allocation, we're going to continue that discipline. Marc used the term "discipline" up front. I'm a big fan of that word and people inside will tell you I'm a big fan of that word, a disciplined and balanced approach to capital allocation, which really gives us the resources we need to achieve what you heard from the whole team today in terms of investing in those growth opportunities while effectively managing businesses in our existing portfolio.

So with that, I'm going to turn it back over to Marc to summarize the day.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

I'll be brief. Let me begin by thanking you for your attention. I know we've covered a lot of material. That said, it's been 2 or 3 years since we've had the opportunity to speak with you, and I think it's appropriate that we spend some time.

And, by the way, I will set the expectation that this is something that we'll do annually as long as I am the CEO, so we'll continue to update you on our progress.

I opined at the outset that part of the objective today was for you all to begin to think that Pitney Bowes differently. And I think that's an important paradigm for lots of different reasons. But one of them is why should you invest? What is different about today than yesterday or a year ago? And I would proffer a couple of thoughts.

One is hopefully you found a theme over and over again focused on value. So when Art, and James and Craig talked about their businesses, they didn't talk just about their own specific [neural slice]. They talked over and over again about how it is that they leveraged the rest of the Pitney Bowes. Why is it that MapInfo or BorderFree are better in our portfolio than outside of our portfolio? What is that we can do synergistically to drive differentiated value?

You see that in our sharing services. What can we do to leverage our size? And you'll see it as a very strong reoccurring thing.

And the second point that I'd leave you with in terms of what's different is I do think we have a very clear plan to unlock the talent that we have, which is a great combination of some overtalent that's been at Pitney Bowes for a while, some people like Kevin Connolly who I think interested enough chose to come back to Pitney Bowes after a brief recess and then some new faces. And I think the combination of that old and new talent is a very, very compelling team.

And finally, the capital allocation strategy is an important part of how we're going to unlock value. I think we've got some very compelling things to invest in. And we have not spoken a lot today about the meter business -- don't infer anything from that. I love the meter business.

Finally, another business you can have those kind of market shares, those kinds of margins, those kind of recurring revenues and amenities, but that's a very unusual set of characteristics.

So with that being said, I do think there are some things that are profoundly different as we go forward. Ultimately, you'll be the judges, but we'll endeavor together.

I now would like to turn it over to all of you. Mike and I will take some questions. And we'll run I would say probably 20 or 30 minutes. I'd ask that you wait for microphones partially so I can hear you because I'm older, partially because people on the - I'm older and that's why I get a chair as well and also -- so the people on the web can hear as well.



## QUESTIONS AND ANSWERS

**Charles McBride** - *Pitney Bowes - VP - IR*

When you do ask your questions, just give us your name and the organization you're with, if possible, that we have also. I'll start with Shannon right here first.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Shannon, always good to be first.

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**Shannon Cross** - *Cross Research - Analyst*

Thanks. Shannon Cross, Cross Research. My first question is just digging a little bit more into EPS, and I don't know who wants to take this. But, obviously, with the cost reductions of \$100 million, \$125 million that doesn't get you down to sort of your benchmark level in terms of SG&A, so I'd assume that there are some improvement there.

And then I think, Mike, you have on there that you targeted EPS that served two times revenue though with the revenue growth that's sort of 0% to 2%. I'm assuming that there is more in that then we should just assume that EPS is only going to be sort of 0% to 4%. So if you can give a little more color on what you're thinking there.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Sure. I would say, obviously, it's a 3- to 5-year view. It's the current portfolio. Low digits can mean different things to different people. You chose 0 to 2. I might broaden that range a little bit. And I did say two times leaving you even more leeway to interpret.

But we think that, obviously, that the impact of that will change over time, right? In the early periods, while we're investing both in achieving the savings as well as in the growth initiatives, there is going to be less leverage there. But as we get into the later stages and certainly if we're achieving the types of growth in these growth initiatives that we believe again markets can sustain, then the leverage can be greater. But we're really trying to reflect it over a period of time.

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**Shannon Cross** - *Cross Research - Analyst*

And just to clarify, does that include benefit from lower interest expense or share repurchase or so?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

No, that is based on the portfolio we have today based on the dynamics that are in the market. We're not assuming share repurchase or acquisition or anything else in that equation.

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**Shannon Cross** - *Cross Research - Analyst*

Okay, great. And I just have one more question.

Marc, can you talk a little bit about PBMS? You didn't really touched on it that much. It's \$900 million of revenue. So I'm curious just to your thoughts on where that business is going?



**Marc Lautenbach** - *Pitney Bowes - President, CEO*

PBMS has some very interesting assets. It's got a great client base. It was a business that operates highly efficiently. It's also a business that's got margin pressures, and we need to continue to work to optimize those assets. So I like the client base. I like how we are efficient. We need to work our margins.

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**Charles McBride** - *Pitney Bowes - VP - IR*

I think Kartik I know you're next.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Kartik Mehta, Northcoast Research. Marc, you talked a lot about your digital commerce business and the ability to grow that business. Is that a business that's going to require a lot of investment, maybe a lot of acquisitions or are you at a point where you have most everything you need now? It's a matter of just marketing the product and gaining scale.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Yes, I think we have the core of what we need. So if you think about the metaphor, that's sometimes a string of pearls. I think we've got the base of the string and we'll make investments in a very targeted and focused way to fill out those string of pearls.

But the thought that I would leave you with is we're trying to double down on places we're really good. We're trying to double down on places we're really good and not only double down on places where we're really good, but double down on places that we think are accretive to the overall portfolio.

That notion that Mike talked about driving value, all kinds of different ways to drive value, but how you remix the portfolio is a very important portion of that.

So you never, in these spaces, have everything that you need. But I like what I'm starting out with and importantly, that's reaffirm with clients, right? You go through those clients that you guys talked about, that tells you a lot.

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**Kartik Mehta** - *Northcoast Research - Analyst*

And then, Mike, you talked about the \$100 million to \$125 million in cost savings. How much of that do you realized in 2014, how much do you realize in 2015? How will you see the trajectory of that?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Yes, it's still a work in process and part of it is dependent upon both investments that we'll make in the short-term. We are in the process of implementing some of the programs that we had identified in the fourth quarter of last year. So, in fact, as you saw in the first quarter of this year, our SG&A was down 7% year-over-year, almost \$28 million.

It will be a rolling program over that period of time not unlike what we did in strategic transformation. And as we go through it, we'll look at identifying other opportunities. Some of it is dependent upon some of the systems work we talked about, but a good portion of it we can get just through good process improvement.



**Charles McBride** - *Pitney Bowes - VP - IR*

Thank you. Ananda?

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**Ananda Baruah** - *Brean Capital - Analyst*

Hi. Thanks a lot, guys. Ananda Baruah of Brean Capital. I was hoping you guys could just give a little bit more clarity around the 2013 revenue -- I guess, the bridge achieving the revenue guidance this year. The risk of taking the long-term model too literally, that's probably not the right thing to do for the '13 exercise.

It sounds like you're suggesting that the delta from 2012 SMB or core mailing revenue can be less contributive to sort of the loss year-over-year. Is that suggestive that the delta back to 0% potentially high will come from the unit price businesses? Can you just fill that gap in a little bit? And I have a follow-up.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Sure. I actually do think that the long-term model is relatively representative of the drivers in 2013. So we do anticipate as we've said since the fourth quarter of last year that we expect the rate of decline in the mailing business to continue to improve. That's created the biggest hurdle for us quite frankly over the last few years.

So in addition to that, getting growth out of some of the initiatives that we have, PBMS and print outsourcing, we did see fourth quarter grow on some improved business. We've seen production mail in the first quarter return to growth. Presort continues to grow. And mail services, as a group, has been increased in terms of its growth rate on the early effects of the ecommerce business.

So I would characterize this to use another baseball analogy as a series of singles in terms of -- versus a homerun that we have to hit in terms of achieving our objectives for '13.

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**Ananda Baruah** - *Brean Capital - Analyst*

Got it. That's helpful. Thanks. I guess just on the meter shipments, this year you guys and you talked about Canada being positive, Europe being positive. I thought that I heard a hint of an intimation in there that you US may be able to turn positive at some point later this year...

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

I think the one we used with stabilizing.

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**Ananda Baruah** - *Brean Capital - Analyst*

...stakes that there -- well, let me just ask a question. Is there possibility in your minds that US keeps his head positive at some point this year? And if it were too, would that just be a short visit or do you think there could be some sort of sustainability?

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

I would rather have you focused on improving the rate of decline in meters in the US.

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**Ananda Baruah** - *Brean Capital - Analyst*

Got it, got it. And then just a last one for me for now, is there any contact you can provide for us with regards to total pool of capital requiring to invest in the growth initiatives over -- I don't know, the 2- to 3-year period reserve you're talking about to get us to the 2015 run rate? I just think it would be helpful for us if we run our models when we think about capital available, capital required and have a form of distance to the balance of model approach you guys are talking about?

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

I think that's the formulary first that I would mention at the outset that I wasn't going to give you.

Listen, I think what I would say is with the flexibility in the balance sheet with the cash flow available we're confident we got the ability to make the kinds of investments we need to lead in this market.

So as we went through the various businesses, I mean, I know these guys will tell you -- first question I asked them is, how are you going to win? And I asked them over and over again. And as they went through that process, they had to render explicit what they need. So we have a sense of that that will continue to evolve. These are fast-paced markets, but we think we got the means to win here.

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**Ananda Baruah** - *Brean Capital - Analyst*

Great. Thank you.

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**Chris Whitmore** - *Deutsche Bank - Analyst*

Thanks. It's Chris Whitmore from Deutsche Bank. Marc, I wanted to ask about your view of maybe the disconnect between the past performance of some of these product areas being in software, etc., versus those growth rates that (inaudible) 15 to 17 CAGR --

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Sure.

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**Chris Whitmore** - *Deutsche Bank - Analyst*

-- over time.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Sure. It's a good question.

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**Chris Whitmore** - *Deutsche Bank - Analyst*

How have you diagnosed like why you haven't been participating in that growth looking back what are the specific actions you're going to take going forward to win?

**Marc Lautenbach** - *Pitney Bowes - President, CEO*

That's a fair question Chris. It's a good question. The first thing that you would observe in the strategic - things you know because you follow the company is things like Craig's business have not been in the software business as we noted nor Volli nor is MText.

There's a series of software and digital businesses that are not currently represented in that assignment. I think that's point one.

Point two, if you look at the overall software business, I think there is two things that strike me that are the most obvious. And one is I don't think we made the investments in the specialized sales force that we need, that we've made investments in sales forces but not with a specialized talent. So in too many places, in too many geographies, we have asked people to do, in my judgment, the impossible and that is to understand deeply many different markets.

And I think when you're competing in these markets, you're competing against competitors that are deadly serious. They know it. And you got to have a sales force that can go up. So I love our sales force, but you got to give them the tools and the expertise to go compete.

And then second thing, I think if you look at our sales processes, I think there is room for improvement and just basic execution of sales processes.

For example, what kind of questions are we, as the management team leaders, asking to push people and to really understand are these things fully (inaudible), have you touched on the bases. And there's just kind of examples like that are important. And those two things in combination with really getting your businesses aligned, I think, are important.

When you look at the software business, you saw just a bit in the first quarter, but if you went back the last several years, we get into a profit trouble as a corporation in the quarter and we pull back the investments that they need in order to grow. The notion of aligning strategic intents with businesses I think will really help our execution.

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**Chris Whitmore** - *Deutsche Bank - Analyst*

I wanted to follow up with a question, Mike. Mike, it's still Chris. I wanted to ask about the...

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

You weren't the person that yawned, were you?

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**Chris Whitmore** - *Deutsche Bank - Analyst*

No, no. I wanted to ask about the OpEx structure. You said you've taken \$400 million now over the past four years that OpEx as a percentage of revenue is actually increased. And it sounds like investment in sales to support the initiatives in software is going to go up, not down. Is \$100 million or \$125 million --

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Let me clarify what that -- I think our overall investment in the software sales force is sufficient. The point I'm trying to make is the investment in specialized sellers needs to go up relative to the overall general population.

If you look at the SG&As of our software business, I would say they're, on the average, about right. You can even argue they're a touch high. So it's a remix of that overall investment, not too fine a point on it but...



**Chris Whitmore** - *Deutsche Bank - Analyst*

Yes, that's helpful. But the crux to my question is, do margins need to go down before they go back out here as you enter into this new investment stage and you continue to face a negative mix shift within your SMB and your mailing business towards these little margin product variance? Thanks.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Sure. In terms of the SG&A, you're right. In absolute terms, the ratio went up in large part because revenue came down as swiftly as it did. So we were taking cost out but, obviously, when you lose some of that very high margin revenue like some of the recurring revenue streams that we talked about in the SMB business. It's very difficult to outrun that. That's why it's so important that we reduce the rate of decline in those spaces.

Then as we invest in these new businesses and we begin to get leverage out of scaling some of those revenues up, we can get leverage that's beyond the average composite margin rate in the business.

We have baked in to our numbers today some significant investment in Bali, in ecommerce. And as those begin to contribute back, we can redirect those investment dollars at other things. So very much, the 3- to 5-year model was getting recognition of the fact that there is an investment cycle early in, and then we get leverage as we go forward.

The \$100 million to \$125 million is a step in the direction of bringing our SG&A down probably first below 30, and then we have opportunity to continue to look at bringing down beyond that we evolve the portfolio.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Just to build on that, Mike is right. It is hard when you got a business that has been in chronic decline the way that SMB mailing is to get in the right point of balance.

That being said, I'm going to manage these businesses to SG&A percentage not overall headcount levels so as they grow or as they contract, they're going to have to manage to a particular number. They're not going to manage to what was in the rearview mirror.

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**Charles McBride** - *Pitney Bowes - VP - IR*

Matt?

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**Glenn Mattson** - *Sidoti & Co. - Analyst*

Hi. Glenn Mattson from Sidoti & Company. I guess, I was kind of -- what I was going to ask about was the drive the software growth, but since that's already been touched on, maybe you could talk a bit more about how valuable that maps business that you compete with.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Which business?

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**Glenn Mattson** - *Sidoti & Co. - Analyst*

The maps business software, who you compete with.

**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Okay.

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**Glenn Mattson** - *Sidoti & Co. - Analyst*

And then also as we get into more of a mobile advertising world, how well that's going to grow?

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

You guys want to talk about your competition?

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**Unidentified Company Representative**

So the location in some of these marketplaces are really fragmented. So there are some significant, big global players that offer very horizontal capabilities. Most notably would be [ESRI] private company out in California.

We, I guess, as a company have traditionally offered similar capabilities, we have similar customer bases. Where we differentiated, as Joe pointed out is really taking those capabilities that traditionally would be very focused in the public sector and bringing those to commercial setting?

When you get into some of the different regions we operate in, the markets become quite fragmented so there are small niche regional players who may partner with us, may partner with our competitors, but also they might compete will have similar capabilities.

And the other big factor in the market, which is somewhat a wildcard is the explosion of our consumer software as well. So the key for us is making those investments, making sure we stay here, keep our capabilities competitive and focusing our markets where we know we can win and succeed.

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**Charles McBride** - *Pitney Bowes - VP - IR*

Okay. Of course, Shannon again.

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**Shannon Cross** - *Cross Research - Analyst*

Thanks, just a couple of more questions. Mike, can you talk a bit about the drivers behind the SMB flattening out on the recurring revenue side? But what are you hearing, what have you done that sort of -- it's not like we're seeing all the small business creation going on out there right now, so what is sort of changed to allow to level out?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Sure, yes. I would say one of the biggest things is sort of baked into the history of the business, right? The nature of recurring revenue streams and the nature of having this financing business is a decision made you live with for four years, right, on average with these customers.

So we saw the significant drop in the '08, '09 timeframe of business activity, right? One of our reactions to that was to shift to more lease extensions and fewer new equipment replacements, which actually has a doubling effect, right? So you lose some customers than just being in the change in the economy and then you get less per customer in terms of a finance receivable when you extend them in a lease. It's a high margin transaction certainly because there's not a new piece of equipment.

But in order to sustain those recurring revenues over time, we really shifted our focus back to placing new equipment. As we got four years' worth of activity behind this, you're now comparing like years so the rates of decline moderate quite a bit. We've done more placement of new equipment and we've done a better job of retaining our customers, particularly at the low end.

I would say we have not yet seen the benefit of an economic recovery on new business formation that actually helps us repopulate the low end of our population, and that's been one of the drags over the last couple of years. So this is kind of built into the base as well as our actions to place more new equipment. Connect+ is a big contributor to that both in the US as well as -- we've seen the benefits of that showing up in our results in recent quarters in newer markets where we've launched it more recently like Germany and France.

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**Shannon Cross** - *Cross Research - Analyst*

And then just to follow up for another question. On cost, we've talked a lot about SG&A cost reduction. Curious, you've done a significant amount of outsourcing and, obviously, offshoring and things like that over the last few years, but where do you sort of stand in terms of cost reduction?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

In terms of cost of goods sold, there's really two main components to that as it specifically to sales. It's in our core mailing business as well as in our DMT business.

So in the core mailing business, the opportunity really is to continue to add more values through software feature enhancement and minimizing incremental cost and equipment. And so by getting price and adding value through digital solutions that's an opportunity for us to get better leverage on the COGS. We'll continue to work supply chain. That's always an ongoing process day in and day out.

In terms of DMT, we're seeing a greater proportion of that revenue base being driven by software components. Marc mentioned [MTEXT], which is a software element within the DMT business that adds a lot of value and document composition and in pulling the whole end-to-end white paper factory type solution together. So that's more of a manufacturing business for us than the traditional mailing business. And likewise, we continue to work the supply chain side of it.

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**Charles McBride** - *Pitney Bowes - VP - IR*

Gentleman here in the white shirt, I'm trying to get recognized. Yes, white. I can't see.

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**Scott Wiperman** - *Goldman Sachs - Analyst*

Thanks, I appreciate it. Scott Wiperman from Goldman Sachs. Maybe just one on the business and then one on the balance sheet.

Maybe you could just talk about the standard mail market, the 6% market share. I guess, I'm wondering who you mainly competing with there and what's necessarily holding you back from getting more share?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

In terms with that market, the standard class mail market, it's a bit of a different animal from the first class mail market. First class mail has to be delivered within a 24-hour period. Standard class mail does not.

The other dynamic in standard class mail is some of it is produced in large batches where it can be set-up digitally to print in order of how it would be delivered. So there is not necessarily, historically, then as big an opportunity to capture some of that what I would call saturation mail, right? Every address gets one of these.

Joe pointed to a dynamic that's really important in terms of our opportunity to capture more of that space, which is marketers are moving away from the resident piece and there will be too much more customized, personalized.

And if you look at your own mailbox, you see more and more large format postcards or letters that are very personalized in terms of content. And so marketers are doing smaller batches much more targeted. In many cases, using that data, they learn about you on the Internet and your behaviors and then target and offer to you.

Those really fit well into our platform in terms of capturing share around those smaller batch, but higher value pieces that they cannot qualify for discounts in the same way they could when they were doing saturation mailings. So we see an opportunity to continue to capture share there, and it's a more stable base of mail than the first class mail has been.

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**Scott Wipperman** - *Goldman Sachs - Analyst*

Thanks. And I appreciate the comments on the I.G. ratios. Maybe if you could just share with us what are the ratios or metrics they are looking at? And then I get just from your perspective, does it matter if you're mid or low BBB and some management teams actually prefer the flexibility of the lower rating and having that it could provide to you all to manage your business? Just if you could comment on that, that would be helpful.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Yes, I think we believe that the way the actions we have taken to date are consistent with maintaining the rating we have. And we would like to stay where we are in order to really manage the cost to access capital. And once you go down it's a lot harder to come back so.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

In terms of the rations, we've looked that so far. I mean, I would say most close our SG&A to Chris's questions on the earnings call the other day, inventory turns, DSO and I.T. expense, total revenue. Those are the four that we're kind of staring at right now.

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**Unidentified Audience Member**

Thank you. (inaudible) with New York Life Investments. A couple of follow-ups to that question, one of the things that's in your control with respect to maintaining investment grade ratios or ratings, has been vivid I think that some would argue that helped quite a bit in maintaining your rating and put the stable up currently.

Let's say trends continue at this pace over the next 12 to 18 months, are you prepared to cut that again to maintain the ratings or is that much off the table?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

I would say that based on what I just showed to you today and based on what we see as a trajectory in the business, we think we have more than ample cash flow to service our debt to making investments that we think we need to make. So that's not something we think we need to contemplate at this point.



**Unidentified Audience Member**

Okay. Thank you. And secondly, you guys did a good job at attacking the near-term maturities. But as you presented in 16 and 17, you guys have quite a bit maturity wall. I was wondering if that's something that you think you need to attack now or just you have plenty of time and can trust later on as we get closer and closer.

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**Michael Monahan - Pitney Bowes - EVP, CFO**

We never stop looking at it, so we'll look at a combination of things in the near-term and look to manage it over the longer term. But certainly in the next 2- to 3-year time horizon, we think we're in good shape. We think we obviously have the opportunity both to use free cash flow as well to go back to the markets to manage that over time. So we feel like we're in good shape.

We had someone over here still waiting. Over here, he's been very patient.

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**Ben Balbale - Matrix Capital - Analyst**

Thanks Charlie. Ben Balbale from Matrix Capital. So two tactical questions and one strategic one if I may. So tactically, have you guys seen any shift with the mix between enterprise class products sales versus called SMB product sales as we have gone through the cycle?

And so how do you think about that mix shift between enterprise versus SMB product sales? Tactically, are you seeing any change in renewal rates as we go through the cycle now, now though we have anniversaried the recession?

And then on a strategic level, Marc, for you, it was very interesting to hear about the history of the products that we're thinking about as our growth initiatives for the future. Some of them seem to be inside of the company for a while, and I'm convinced that the team has been trying to get them to succeed.

What's your sense of why they haven't been able to for a while? I mean, the map business, they're around since '05. Was this a market knowledge issue? Was it a market adoption issue? How do you think about what might be changing to cause better -- the acceleration you're putting on as a result of better execution to actually take traction in the market?

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**Marc Lautenbach - Pitney Bowes - President, CEO**

We'll answer the tactical question, and I'll come back to that.

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**Michael Monahan - Pitney Bowes - EVP, CFO**

Sure. In terms of the mix between enterprise and SMB, I tried to point a little bit to that in my discussion. I think what you see in SMB is really at the low end of the marketplace.

A growing economy can help us achieve better growth, particularly at the low end of the marketplace. And so we'd like to see a better and at least a more stable overall economic environment to drive growth there. We are leveraging broader channels. Dealers have become a broader part of our go-to-market channel strategy at a variable cost basis. On the enterprise side, as I talked to presort, we've got opportunity in standard class mail.

In the production mail business, that is a little more economically sensitive. So as we see particularly in the financial services, telecommunications, those types of markets make capital investments and see growth opportunities. We tend to benefit from that.

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**Ben Balbale** - *Matrix Capital - Analyst*

Would it be fair to say that our business today is more enterprise class than it was, I don't know, 2, 4 years ago?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Oh, it certainly is. But as you saw, we're about 50/50 revenue base between SMB and enterprise.

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**Ben Balbale** - *Matrix Capital - Analyst*

Within enterprise -- within product sales alone.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Within equipment sales, we're much more SMB today than enterprise. The only equipment sales is in the DMT or the production mail business today, so it's still dominated by the SMB.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

To answer your strategic question, I'm not sure I'm the best person to necessarily opine on history given my tenure here so far.

I will say that what you noticed coming in from the outside is the acquisitions tend to be in the same geographic footprint that we bought. So at IBM when we did acquisitions and we did acquisition cases and, first of all, there was an incredible level of rigor around business cases and accountability.

But the play was you buy something and you use your distribution channel around the world, but that requires a distribution channel that is specialized to that specific product not a distribution channel as homogenized skills.

And the way that you fund that is by driving efficiencies out of the backroom. So when I talk about 37 different order-to-cash systems which predominant (inaudible) the acquisition so that in -- I mean, it's a very disciplined recipe on acquisition.

You take money out of the backroom, leverage your size, invest that in your sales force around the world. And that's again without opining on history here, that's the recipe going forward. So when I talked about getting leverage out of the acquisitions that were already made that's not -- I also think it's possible. Well, it's not like software business. It's (inaudible) software business because I like the margins.

So if I can find a software business that I think I can win in that's not an arms raised to help then I want to play because it's hard to find businesses that are creative to our overall model. I mean, you don't find many businesses that have over 50% gross margins besides software. So maybe I gravitate towards different things than others, so I think there's a very standard way of how you make software acquisitions pay.

I want to just delve a little bit further into the cap allocation strategy because the way I look at the company now, you're pretty underlevered in a sense that -- I think the slide that you put out has about a \$1.7 billion corporate debt at that point making \$700 million of cash after you paid the debt down. And you're churning out \$600 million plus of free cash flow, so a couple of years from now you're effectively net debt free.

So I'm kind of curious what's the game plan with the cash given that there's no real pension obligations to or restructuring cost, so it's really going to pile-up.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

This is always the best part of an analyst day as you get people that are concerned that we don't have enough debt and people concerned we have too much debt. People think there's share buybacks or people should use share buybacks and dividends.

Listen, we are going to foresee opportunistically to allocate capital the way that we think drives shareholder value. And I'm not going to give you a lot more depth than that. We'll continue to put cash to work. And if we got great ideas for it inside the company that I think are accretive like the business, as you heard, will invest it. If not, we'll find a way to give it back to shareholders in a way that makes sense.

Right now, I'm looking at a bunch of opportunities that I think are pretty damn good ideas. But if we ever won out of those ideas, then we'll figure out a way to go back through dividends or share buybacks or whatever makes sense at the time. But that's ways down the road.

Right now, I got some guys in this front row that got some pretty good businesses.

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**Unidentified Audience Member**

So I think the CapEx like you said (inaudible) you do expect to continue to decline modestly, right?

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

I'm not sure I have said that in one of my --

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

I did.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

You did?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

I did. Yes. But that CapEx is a small piece of the overall equation, right? I think to Marc's point, we're going to take a very disciplined and balanced approach to it.

I wish we could pay down debt in 2 or 3 years, but that's not the case based on our cash flow profile. We can certainly continue to manage that down over time. We do want to be able to invest in the things that Marc talked about to grow the overall business, which is critical to the long-term success of the businesses that you (inaudible). Thanks.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Question over here.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

We're ignoring the left side of the room.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Yes.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

We'll get you in a second (inaudible). Sorry. We'll get you now. (Inaudible).

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**Steve Searl** - *Conning Asset Management - Analyst*

Yes, Steve Searl, Conning Asset Management. Have you ever considered outsourcing the equipment finance part of the business to a G.E. Capital or someone similar to that off the balance sheet?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Yes, we have looked at that a number of times over the years. And at the end of the day it's an important piece of our overall business model. But also, it would be a relatively tax-inefficient thing to do at this point. It would cost us a lot because of the deferred tax profile of that.

But quite, frankly, we do see it as a very valuable tool that allows us to approach our customers with solutions and the case of the lease extensions or new equipment to provide them financing for other products and services that they use and we leverage our banking entity to be able to do that flexibly for small businesses. So we see it as a pretty integral part of our business model. But that being said, we have looked at it and we just don't see it as a tax-efficient thing to do.

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**Steve Searl** - *Conning Asset Management - Analyst*

And second, what is the minimum amount of cash you really need to run the business day-to-day?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

It probably in the \$200 million range just in -- that's just cash that would be encumbered in some way, so we have cash on hand with the postal service. We have some cash that we require as capital in the banking entity, those types of things. But obviously, we have access to commercial paper and other funding sources.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

In the back, I want to take a couple of more questions and be respectful of your lunch times, but there's a question in the back room.

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**Peter Treadway** - *Steadfast Financial - Analyst*

Hi. Peter Treadway from Steadfast Financial. I have a question just on the cash coming from a second ago. Well, you guys have had some big swings in your commercial paper historically, you know, Q3, I think you're drew down about \$700 million of commercial paper into the quarter. So given the \$200 million number that you just gave, which is kind of the amount of cash you need to run the business the business on a day-to-day basis, why such big swings in commercial paper? And how important is that commercial paper as it ties into your investment grade rating?

**Michael Monahan** - *Pitney Bowes - EVP, CFO*

I think our average commercial paper outstanding in the first quarter was about \$100 million. Back in the third quarter, that may have been around some of the funding things we were doing. And I can't answer the specific question of the \$700 million at the point in time.

But we have really focused on managing the business with our cash flow and really have brought the average C.P. levels down pretty consistently over the last few years.

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**Peter Treadway** - *Steadfast Financial - Analyst*

So it shouldn't really go above \$200 million going forward?

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

I don't want to say it won't go above \$200 million. But as I was answering it, maybe a different question not how much commercial paper we'd have outstanding any one time, but more how much of our cash on our balance sheet is tied up in certain requirements around capital.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

We'll take one more question maybe. Take it right back there.

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**Kyle Sable** - *Bloomtree Partners - Analyst*

Kyle Sable from Bloomtree Partners. If you could comment on actually, I think, (inaudible) the renewal rate versus the new equipment rate and both how that's going but also to hit where you want to be long-term financially, how does that ratio need to change? How much more update do you need to get to where --

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Sure. About today a little under 20% of our transactions are lease extensions. That's down considerably from the high 20s a couple of years ago, sort of in the throes of the recession.

I would say we're approaching that point where we think it's pretty much in balance and, in fact, in the next couple of quarters we kind of expect that to annualize itself.

We'll continue to monitor that. And the things that will cause that to change will be around new product introduction. So one of the reasons we reduced it from the levels that was add because we had a great new product like Connect+, we can go out to the marketplace and place that product because it has a much broader value proposition than the prior product.

So we'll adjust that as we see fit in the marketplace really one responding to what clients are looking for and asking for and also related to the products like as we have going on.

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**Charles McBride** - *Pitney Bowes - VP - IR*

Kartik, I think you have one last question.

**Kartik Mehta** - *Northcoast Research - Analyst*

Okay, I appreciate it.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

By the way, we'll stick around for a couple of minutes after we're just...

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**Kartik Mehta** - *Northcoast Research - Analyst*

Marc, I just want to go back to the answer you gave David's question. I want to make sure I understand it. I think a) I'm trying to understand when you feel comfortable buying back stock, but more importantly, just to understand what investments do you think you need to grow these businesses. Are we talking \$20 million, \$30 million or are we talking \$200 million, \$300 million?

And maybe it's just my understanding of the way you gave the answer, but I just want to make sure I am.

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**Marc Lautenbach** - *Pitney Bowes - President, CEO*

Well, I think, as I said, I'm not going to introduce any new territory here. I think in these businesses, we have the core of what we need -- point 1.

I described to you the kinds of financial characteristics that I would work for in acquisitions, accretive in 18 months, cash flow positive in five years and strategically coherent.

As you look at -- always in my experience -- what kind of acquisitions tend to make that cut, they tend to be smaller because it's easier to make smaller things accretive. Am I going to sit here and tell you categorically that I won't do something that's larger? No, I won't. But if I do, it's going to have to adhere to those financial criteria.

So, I'm much more familiar with a recipe that takes something smaller and spreads it around using your distribution than I am doing something that's been -- I don't feel the need to do something transformative given what you've heard about so far.

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**Michael Monahan** - *Pitney Bowes - EVP, CFO*

Thank you all.

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**Charles McBride** - *Pitney Bowes - VP - IR*

We will conclude by thanking you. You've been very attentive. We appreciate your focus on the company. It means a lot to us, and we will stay a few minutes to answer questions after the meeting. Thank you very much.

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**Unidentified Company Representative**

Thank you.

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