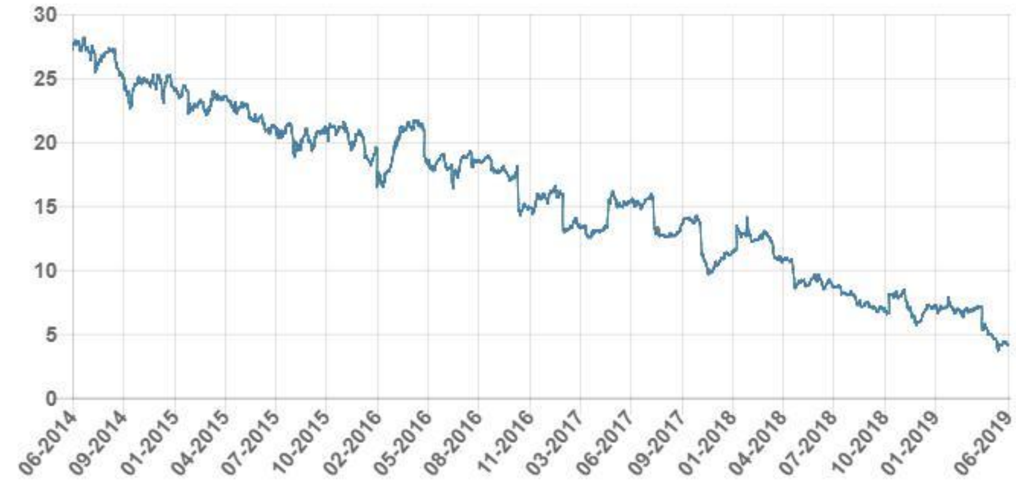
Pitney Bowes (PBI:NYS)

stockcalc

Fundamental Valuation Report

Industrials:Business Equipment

-Close Price/Date	Weighted Valuation
$4.28 (USD) 28/06/2019	$11.26 (USD)



Overall Rating
Undervalued by 163.2%

Valuation Models (in order of importance)	Analyst Consensus: $15.00 (USD) Comparables: $7.46 (USD) Adjusted Book Value: $7.65 (USD)
Valuation Methods Cash Flow: Comparable Company: Asset:	This company is: Undervalued on a Cash Flow Valuation Undervalued on a Comparable Valuation Undervalued on an Asset Valuation

Information

My name is Michael El-khoury, I am a Student at the University of New Brunswick, majoring in Finance and I am just starting an internship here at StockCalc for the summer. One of my tasks is to do reports on companies using StockCalc's useful tool and external resources.

This Stock is	Technically		
Fundamentally	Buy	Hold	Sell
Under Valued	Buy the Stock	Buy or Wait on Technical	Wait on Technical
Fairly Valued	Buy or Wait on Fundamental	Wait on Both Indicators for Direction	Sell or Wait on Technical
Over Valued	Wait on Fundamental	Sell or Wait on Fundamental	Sell the Stock

Company Overview (PBI:NYS USD)

Price	4.06
Range	4.02 - 4.30
52 week	3.65 - 9.27
Open	4.21
Vol / Avg.	2.73M/3.64M
Mkt cap	755.43M
P/E	5.36
Div/yield	0.75/0.11
EPS	1.19
Shares	180.73M
Beta	1.82

Drivers of the Industrial Sector

The industrial sector is well diversified that include industries in produce, goods in construction, manufacturers, transportation and wide ranging number of business services. The sector can be broken down into three different subsectors; Capital Goods, Commercial and Professional Services and Transportation. In the case of Pitney Bowes, they would be considered as a Capital Goods. Drivers of Capital Goods sector are the health of the economy, aftermarket sales of products, the input cost of making new products such as prices of raw material and supply and demand of products. Also mailing services have seen a decline in the past year due to new competition affecting it, an example would be DocuSign, which makes it easier to sign documents online.

Recommendation

My recommendation for Pitney Bowes a **HOLD**. I looked at the provided information from StockCalc, PBI is fundamentally undervalued noted in the valuation detail section on a basis of cash flow, comparables and assets deriving a $11.26 weighted valuation. Taking a deeper look into the industrial, capital goods factor and forecast for Pitney Bowes itself, I have determine my HOLD decision due to its future top line growth with expansion in the parcel business. PBI also has over $3 billion in debt and after management takes measures to address their debt problem by cutting employees off from 33,000 employees in 2010 to 13,000 in 2019. As result of all this even though it may seem that Pitney Bowes is currently in bad position I would strongly recommend holding it if you own PBI.

Company Description

Pitney Bowes is a global technology company that offers products to assist consumers in marketing to their customers. These products consist of customer information management, location intelligence, and customer engagement products and solutions. The company operates through three segments including small and medium business solutions, enterprise business solutions, and digital commerce solutions. The segment generating the largest revenue is small and medium business solutions. The company is primarily located in the United States but also operates overseas.

Company Latest News

May 1st, 2019, Pitney Bowes Inc. had their Q1 earning call, results showed 1% decrease in revenue from the prior year, operating profits also took hit due to a rebate program of their tablet battery life, global ecommerce underperformed in the quarter due to delays of their national service agreements approval with USPS. Their Presort services is seeing a some productivity issues, but has plans to implement their SMB businesses in Europe. Overall their Q1 earnings for PBI were non the less disappointing and caused them to be down 24.4% in value.

Capital Goods Forecast

The capital goods sectors is outperforming during periods strong economic conditions but when economic condition worsen we a decline in demand for capital goods. The current business cycle is has been in the same stage the past ten years, after June 2009 the business cycle has been in the expansion stage, being the longest expansion to date. The future of the expansion stages seems to be coming to an end, due to trade tensions with China and Mexico, a recession is somewhere on the near horizon. With a potential doomsday around the corner, the fed has been in speculations of cutting rates the past month to prepare for a probable recession. This will impact the capital goods sector negatively and should see a decrease in demand for PBI products and services on top of that people are no longer sending mail as they did before. PBI is also a global player, with business in Europe and many other regions around the world. PBI has had some logical problems during the first Q1 of 2019 but we should see a transformation where management attempts to bounce back in Q2. To compensate from the decline in mail being sent out PBI has been making a shift to parcel shipments, this has improved their top of the line in the past 3 years from revenue of $2.9 billion in 2016 to 3.52 billion in 2018. Also see more focus with their SendPro online shipping solutions as the parcel services have seen an increase of 15% due to massive increase in online shopping.

Valuation Details

We have up to 6 valuation points for each company. Details are at the bottom of the report

Discounted Cash Flow and Sensitivity Analysis for PBI:NYS

Using a discounted cash flow model we generated an intrinsic value of $44.13 (USD) for PBI:NYS

Sensitivity Analysis

(showing how changes in the input variables impact the DCF calculation)

PBI:NYS	Current Values	Valuation If Dropped *		Valuation If Raised *	
Calculated Value:	$44.13	1%	5%	1%	5%
WACC (or Ke)	5.72	$59.83		$33.65	
Terminal Growth Rate	0.70	$34.64		$58.35	
Tax Rate	0.06		$47.31		$40.94
Cash Flow	593,261,743		$41.13		$47.13
Capital Expenditures	0		$44.13		$44.13
Long Term Debt	3,367,056,000		$45.06		$43.20

* Changes are absolute: ex WACC from 8% to 7%

Comparables Model

Using similar companies and price based ratios we generated a valuation of $7.18 (USD) for PBI:NYS. We also generated a valuation of $5.73 (USD) using other metrics and comparables. The comparable companies were ACCO Brands (ACCO:NYS), Knoll (KNL:NYS), HNI (HNI:NYS) and Steelcase (SCS:NYS).

Company PBI:NYS	End Date Value
Earnings/Share	$0.86 (USD)
Book Value/Share	$0.48 (USD)
Sales/Share	$18.60 (USD)
Cash Flow/Share	$2.09 (USD)
EBITDA/Share	$2.80 (USD)

Price Based on Comps	Adjustment Factor (%)
$11.76 (USD)	-60.4
$1.04 (USD)	0.0
$11.44 (USD)	9.8
$4.76 (USD)	-45.8
$0.00 (USD)	-1.5

PBI:NYS	Ratios Used	Average Values	ACCO:NYS	KNL:NYS	HNI:NYS	SCS:NYS
5.21	PE Ratio	13.67	8.77	14.04	16.86	15.03
8.54	PB Ratio	2.19	1.05	2.76	2.78	2.18
0.22	PS Ratio	0.61	0.43	0.80	0.69	0.54
1.94	PCF Ratio	10.60	11.34	8.80	8.19	14.08
6.73	EV to EBITDA	8.24	6.23	10.38	9.02	7.34

Multiples

Using a multiples approach we generated a valuation of $14.10 (USD) for PBI:NYS

Company PBI:NYS	End Date Value
Earnings/Share	$0.86 (USD)
Book Value/Share	$0.48 (USD)
Sales/Share	$18.60 (USD)
Cash Flow/Share	$2.09 (USD)
EBITDA/Share	$2.80 (USD)

Price Based on Comps	Adjustment Factor
$9.57 (USD)	0
$8.74 (USD)	0
$16.15 (USD)	0
$12.18 (USD)	0
$23.86 (USD)	0

Ratios	Ratio Average
PE Ratio	11.13
PB Ratio	18.37
PS Ratio	0.87
PCF Ratio	5.83
EV to EBITDA	8.51

Adjusted Book Value versus Historical Price to Book

The average the Price to Book ratio for PBI:NYS for the last 10 years was 16.71. We ran the Adjusted Book Value for PBI:NYS and generated a book value of $0.46 (USD). By multiplying these we get an adjusted valuation of $7.69 (USD)

Analyst Data

In the Stockcalc database there are 1 analysts that provide a valuation for PBI:NYS. The 1 analysts have a concensus valuation for PBI:NYS for 2019 of $15.00 (USD).

No analyst recommendation Current Price: not available

No analyst consensus

Explanation of Valuation Models

We have up to 6 valuation points for each company in the database.

The Discounted Cash Flow (DCF) valuation is a cash flow model where cash flow projections are discounted back to the present to calculate value per share. DCF is a common valuation technique especially for companies undergoing irregular cash flows such as resource companies (mining, forestry, oil and gas) going though price cycles or smaller companies about to generate cash flow (junior exploration companies, junior pharma, technology firms…).

The Price Comparables valuation is the result of valuing the company we are looking at on the basis of ratios from selected comparable companies: Price to Earnings, Price to Book, Price to Sales, Price to Cash Flow, Enterprise Value (EV) to EBITDA. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

We have included the Other Comparables as a way to value companies that cannot be valued using Earnings based ratios. This technique is very useful for companies still experiencing negative cash flows such as mining exploration firms. We use Cash/Share, Book Value/Share, MarketCap, 1 Year Return, NetPPE as the ratios here. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

Multiples are similar to Price comparables where we look at current or historic ratios for the company in question to assess what it should be worth today based on those historic ratios. We use the same 5 ratios as in the price comparables and value the company with its historic averages.

With Adjusted Book Value (ABV) we calculate the book value per share for the company based on its balance sheet and multiply that book value per share by its historical price to book ratio to calculate a value per share.

If we have Analyst coverage for the company we use the consensus target price here.

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