Rapid Response

Pitney Bowes

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| | CBH Cyber Governance Rating | ★★☆☆☆ Feb 2020 | ▼12M trend |

Pitney Bowes announced Q419 financials on February 4, 2020. Initial financial impact of the October 2019 ransomware attack is now more clear.

October 21, 2019
Post event CBH Analysis

① **Estimated** Operational and Financial **Impact:**

▸ $25-35 million in EBITDA
▸ 12 months increase in OpEx
▸ Lost revenues

② Possible credit downgrade

③ 'Soggy' share price due to questions over cyber governance

④ Second material incident due to cyber governance in the last 12 months

February 4, 2020
Analysis Post Q419 Earnings

① **Actual** Operational and Financial **Impact:**

▸ $29 million in lost Free Cash Flow
▸ $19 million in lost EBITDA (Adj.)
▸ $18 million in lost revenues (missed expectations)

② Placed on negative watch list by Moody's

③ $125 million in Lost Shareholder Value (ex-post)

④ The flagship digital transformation product—SendTech—revenue has decelerated after showing improved performance in Q319.

What To Watch For Moving Forward

Insurance coverage of losses. According to the earnings release, the Company has insurance and expects a portion of any profit impact, including the profit associated with any loss of revenue, to ultimately be covered by insurance. Cyberhedge considers it unlikely that insurance will cover most or all the revenue losses.

More security spending/costs. The company will need to increase investment in securing the technology stack and operations this year. If it fails to do so, low cyber governance ratings will persist and the share price will likely continue to be soggy in 2020.

Continued questions about ability to execute on digital transformation strategy. Continued questions about ability to execute digital transformation strategy (including ability to stem losses and generate revenue from SendTech product) should weigh on shareholder value and possible downgrade as company continues to clean-up balance sheet.