

# Rapid Response

MONDAY, OCTOBER 21, 2019

CYBERHEDGE

**Pitney Bowes**

**The market's need for external cyber risk ratings.** Greater transparency on cyber governance will do more than just tick boxes at the board level. It will help company leadership, stockholders and bondholders avoid significant market losses.

| CBH Cyber Governance Rating     | Type of Attack                     | Operational Impact   | Est. Financial Impact                                   | Similar examples              |
|---------------------------------|------------------------------------|--|---|-------------------------------|
| ★★☆☆☆<br>Oct 2019<br>▼12M trend | Ransomware / Business Interruption | Lost Revenue, est. 12M Increase in OpEx, Likely Customer Churn | \$25-35mn in EBITDA over 12M, Possible Credit Downgrade | Maersk, Norsk Hydro, Mondelez |

**Pitney Bowes Corporation (PBI) is the latest canary in the coal mine**

A cyber risk rating would have mitigated some of the market losses for Pitney Bowes shareholders in Q1 of 2019. Following this latest attack, an SEC-disclosed cyber rating would help highlight what we expect will be a future downward revision of \$25-35mn in annual EBITDA from the company as a result of continued poor cyber governance.

**Two incidents of poor technology management in less than one year**

PBI will likely incur unexpected financial losses due to disrupted operations from an October 2019 ransomware attack. In an earlier incident in Q1 2019, the company took an unexpected \$9mn charge on the mismanagement of the technology it provided to customers. The Q1 incident had a material financial impact on PBI missing earnings estimates, sending the share price lower. These losses to shareholders could have been avoided with a publicly available 'cyber governance rating,' similar to the credit or equity analyst ratings the market relies on. A cyber governance rating would have signaled to shareholders that PBI's poor governance was already contributing to value loss and would leave the company vulnerable to further significant financial losses in the event of a breach.

We expect the October incident (again, due to poor cyber governance) to lead to a series of future earnings disappointments. Despite a recent bounce off of 2019 lows, PBI shares are likely to be soggy as the market will have new questions over the company's ability to execute on its "digital transformation" strategy, critical for converting its declining 'old-economy' profits into future 'technology-driven' growth. This latest incident reconfirms that the company has been underinvesting in securing the technology stack and operations that PBI claims are critical to its future success. PBI's ability to manage the downside risks of this digital transformation is the company's key risk going forward. Without cyber governance transparency, shareholders cannot gain a picture of how well or poorly these risks are being managed.

**Past underinvestment means higher costs and lower cash flows in the future**

Based on our cost estimates from other ransomware attacks at public corporations (attacks that disrupt business operations, like at Maersk and Norsk Hydro), we believe fixing the problems related to the cyber attack, as well as correcting the underinvestment in technology security, requires PBI to spend significantly more money than it has budgeted for. These higher costs will lead to lower-than-expected EBITDA in coming quarters that will likely further depress the already underperforming share price. On top of that, there is also a risk to downgrades of PBI's credit rating (now on negative watch by Moody's). The company must redeem more than \$2bn in bonds in the next five years.

## What do we mean by cyber governance?

Cyberhedge created the performance metric of a cyber governance rating as a way to compare how companies manage their technology investments and network security. The rating is used in the financial industry alongside investment metrics like Return on Equity or Assets (ROE/ROA) or Earnings per share (EPS). We define a corporation's cyber governance as 'the financial impact resulting from how companies manage the operational risks of their technology investments.' Our Cyber Governance Indexes are priced daily and demonstrate market-based proof that better cyber governance does outperform the market and vice versa. For more details, see our [CBH ratings](#).

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## Research

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