

Xerox Reports Second Quarter 2015 Results

Second Quarter Overview

- **EPS:** adjusted¹ EPS of \$0.22/share, GAAP EPS from continuing operations of \$0.09/share
- **Q2 total revenue** of \$4.6 billion; down 7% YOY (down 3% CC*)
 - **Services:** decrease of 3% YOY (up 1% CC*)
 - **Document Technology:** decrease of 12% YOY (down 7% CC*)
 - **Annuity revenue** of \$3.9 billion; down 7% YOY (down 3% CC*); 84% of total
 - **Equipment revenue** of \$719 million; down 8% YOY (down 3% CC*); 16% of total
- **Operating margin** of 8.2%; down 1.6 pts YOY
- **Segment margins:** Services 7.5%, Technology 12.1%
- **Operating Cash Flow** of \$349 million

Balance Sheet/Cash

- **Cash from operations:** \$349 million
- **CAPEX** of \$102 million
- **Acquisitions** of \$20 million
- **Adj. avg. fully diluted share count²:** 1,105 million
- **Ending fully diluted share count²:** 1,113 million
- **Share repurchases** of \$395 million
- **Ending Debt** of \$7.6 billion
 - Retired \$250 million Senior Notes
 - Issued \$306 million in Commercial Paper

Guidance

- **Revenue:** FY 2015 down ~2% CC
- **EPS:**
 - **Q3 2015 adjusted¹:** \$0.22 – \$0.24
 - Q3 includes approx. \$0.01 of restructuring
 - **FY 2015 adjusted¹:** \$0.95 - \$1.01 (lower-end)
 - **GAAP (from Continuing Operations):**
Q3 2015: \$0.17 - \$0.19; FY 2015: \$0.69 - \$0.75
- **Share repurchases:** increasing to \$1.3 billion
- **Acquisitions:** reducing expectations to \$100 - \$400 million
- **Q3 & FY 2015 adjusted¹ tax rate:** 25% - 27%
- **Full year operating cash flow:** \$1.7 - \$1.9 billion range

Services Segment

- **Q2 revenue** of \$2.6 billion; down 3% YOY (up 1% CC*)
- **Services 56% of total company revenue**
- **Revenue mix** of 68% BPO, 32% DO
- **Segment margin** 7.5%; down 1.0 pts YOY
 - Margin in line with expectations; reflects investments and continued higher Health Enterprise costs
- **Year-over-year revenue:**
 - 3% decline in Business Process Outsourcing (BPO) (down 1% CC*)
 - 3% decline in Document Outsourcing (DO) (up 4% CC*)
- **Metrics:**
 - **Signings of \$3.2 billion TCV**
 - Up 20% YOY and up 1% TTM, driven by new business signings
 - ARR/NRR new business up 9% YOY, down 15% TTM
 - Q2 signings includes recently approved New York MMS but not pending Florida Tolling
 - **Renewal rate (BPO and DO) of 82%**

Document Technology Segment

- **Q2 revenue** of \$1.9 billion; down 12% YOY (down 7% CC*)
 - Including DO, revenue decline stable, down 4% CC*
 - Annuity revenue down 12% YOY (down 7% CC*), 71% of revenue
 - Equipment revenue down 10% YOY (down 6% CC*), 29% of revenue
- **Segment margin** 12.1%; down 2.3 pts YOY
 - Margin in line with expectations, down YOY and up sequentially
 - **Revenue mix** of 19% entry, 57% mid-range, 24% high-end

Installs³

Overall Install Growth			
	Entry	Mid-Range	
A4 Color MFDs	9%	Mid-Range Color MFDs	4%
Color Printers	(24)%	Mid-Range B&W MFDs	(2)%
A4 Mono MFDs	(12)%		
		High-End	
		High-End Color ⁴	16%
		High-End B&W	4%

Note: The sale of our ITO business to ATOS closed in second quarter 2015 and it is being reported as a discontinued operation

* Constant currency (CC)

(1) Adjustments limited to the amortization of intangible assets and software impairment in 2015

(2) Avg represents diluted shares as used for the calculation of EPS in the quarter (excludes 27 million of shares associated with the Series A convertible preferred stock as to include these shares would be anti-dilutive and therefore the related quarterly dividend was included). Outstanding represents common shares outstanding for the quarter plus potential dilutive common and preferred shares (includes shares associated with our Series A convertible preferred stock)

(3) Installs include Document Technology and Services segments

(4) High-end install growth impacted by digital front end (DFE) sales to Fuji Xerox, High-End up 12% in Q2 excluding DFE's

Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2015 earnings release posted on our website at <http://www.xerox.com/investor>

