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PRESENTATION

Operator

Good morning and welcome to the Xerox Corporation first-quarter 2016 earnings release conference call hosted by Ursula Burns, Chairman of the Board and Chief Executive Officer. She is joined by Leslie Varon, Vice President and Interim Chief Financial Officer.

During this call Xerox executives will refer to slides that are available on the web at www.xerox.com/investor. At the request of Xerox Corporation, today’s conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the express permission of Xerox.

After the presentation there will be a question-and-answer session.

(Operator Instructions)

During this conference call, Xerox executives will make comments that contain forward-looking statements, which by their nature address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Ms. Burns. Ms. Burns, you may begin.

Ursula Burns - Xerox Corporation - Chairman & CEO

Good morning and thank you for joining us. I am pleased to report that at the end of the first quarter we are on track to deliver on our three commitments for the year: meeting our guidance, reaching the first year target for our strategic transformation program and completing our separation into two companies.
I'll begin with an update on our progress on a new path forward for Xerox before turning to first-quarter results. In January we announced plans to separate into two independent publicly traded companies, one comprising our Document Technology and Document Outsourcing businesses and the other our Business Process Outsourcing business. Both will be Fortune 500 scale companies that are leaders in their respective industries.

Further demonstrating our commitment to driving shareholder value, we concurrently announced a strategic transformation program to deliver $2.4 billion in cumulative savings over three years which includes both ongoing and incremental initiatives to enhance productivity and efficiency. We are looking at all aspects of our business to make them more agile and competitive and expect to achieve $700 million in annualized savings this year. Together, these actions will create two focused companies that have strategies, talent and the organizational and capital structures needed to compete in their markets.

We are making progress on both of these initiatives and I am confident that we're making the right steps to best position each Company for the future. We have positive feedback on our plans. Over the last few months, we've been talking to employees, clients and partners regularly about the benefits of the separation and what it means for them.

Our clients see the benefits of increased focus and responsiveness to the market. In fact, I met with the executive teams of two major clients in the past couple of weeks both in the top 75 of the Fortune 500 and both expressed their positive view. And our employees tell us they are excited to be part of the journey and to work for companies that are innovative and leading their industries.

During the last three months, we have made substantial progress in building strong operational and financial foundations for both companies. We formed a program management office - or PMO - that is driving the separation and strategic transformation initiatives, reporting to an executive steering committee that I lead. The PMO, working with the business teams, is designing operating models and organizational structures.

It is also responsible for structuring the separation transaction and designing the optimal capital and legal structures. We are also taking a close look at the business strategies for both Document Technology and BPO to ensure they are fully optimized. We have identified a number of ways to sharpen each business strategy and improve execution.

We are completing this analysis and will develop detailed action plans to capture the highest value opportunities. Some of that implementation will begin this year with more to come post-separation.

Many of you have asked about milestone decisions regarding leadership and financing. These are critical decisions that require a thoughtful process. While I can't answer all of your questions at this stage, I can share a few insights on where we stand.

With regard to the leadership of the two companies, our searches are well underway, and we have high-quality candidates for each key executive role. While the timing for completing the hiring process for very senior roles is difficult to predict, we are targeting to fill the top roles by mid-year.

In addition to the management teams, we are reviewing candidates to fill the additional Board seats created as a result of the separation.

On financials, the big milestone is the filing of our initial Form 10 registration statement with the SEC. We are on track to do that in July, in-line with our goal of completing the separation by year-end. We have decided that the optimal way to execute the separation is through a tax-free spinoff of our BPO business.

The Form 10 will describe the transaction in detail and provide more information on the BPO company. We have also quantified the cost associated with the separation and the first year of the strategic transformation program. We expect to incur one-time separation costs of $200 million to $250 million and restructuring costs of $300 million. Leslie will provide further details on this shortly.

So all in all, very good progress on these initiatives. We are on track to launch two companies at year-end that will have the right strategies, the right structures and the right leaders.

With that said, I want to emphasize that we are managing these programs to ensure our executive team and employees remain focused on serving our clients with excellence and delivering our 2016 plans. So let’s talk about how we’re doing on that front.
In the first quarter of 2016, we delivered adjusted EPS of $0.22, within our guidance range. GAAP EPS from continuing operations was $0.03. Total revenue of $4.3 billion was down 4%, or 3% in constant currency, reflecting growth in our Document Outsourcing and BPO businesses offset by continued revenue pressures in our Document Technology segment.

Operating margin of 7.2% declined 130 basis points year over year. In Services revenue growth improved and margin increased modestly compared to last year. Document Technology revenue continues to be impacted by the weakness in developing markets. And currency negatively impacted Doc Tech margin.

As a result of these factors, we have accelerated our cost reduction initiative, resulting in a sizable restructuring charge. We expect to realize the benefits of these actions beginning in the second quarter.

During the quarter, we also continued to strengthen our portfolio with new products and offerings that showcase our innovation. Here are a few examples.

In the healthcare market, we launched Xerox Health Outcomes Solutions, a full lifecycle population health management solution designed to help providers adapt to value-based contracts. The Centers for Medicare and Medicaid Services have set a requirement that by 2018 50% of all payments must be value-based, meaning providers are compensated for healthy outcomes rather than each service provided.

According to a survey that we sponsored, healthcare providers and payers need to significantly accelerate their efforts to adapt to this standard. So we see a big opportunity for this product.

Our transportation team introduced the Go Denver and Go LA mobile app to help residents and tourists make transportation choices more easily and effectively. Commuters in Denver and Los Angeles can use Xerox-powered apps to search for the cheapest, fastest and most sustainable way to move around these cities.

We expanded the capabilities of our ConnectKey platform, targeting the large office market. This new and refreshed collection of apps and tools boosts workplace productivity by tightly integrating our 14 ConnectKey i-series multifunction devices with cloud hosted services and mobile communications technology. It is innovations like these that enable us to maintain our number one market share position in MPS.

And for our graphics communications customers, we introduced two new next-generation inkjet presses, the Xerox Brenva HD Production Inkjet Press and the Xerox Trivor 2400 Inkjet Press. These represent the first of a new series of innovative inkjet products that will enhance our high-end printing offerings. We look forward to ramping up sales later this year.

Looking to cash flow, we used $25 million in our cash from operations which is in line with seasonality and ended the quarter with a healthy cash balance of $1.2 billion.

Bottom line, we met our guidance and are confident that we're taking the right steps to achieve full-year objectives. Some of our underlying results were mixed, and we are pulling all levers within our controls to successfully navigate in a challenging market environment and best position our businesses for the future.

I will turn it over to Leslie who will provide more detail on our financial results and 2016 guidance.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

Thanks, Ursula, and good morning everyone. I will start by walking through the income statement and then discuss guidance before handing it back to Ursula to wrap up.
Before I get started, I'll remind you that the information I'm sharing reflects the reporting revisions we announced last quarter. Total revenue of $4.3 billion and adjusted earnings of $0.22 were within our expectations. Services delivered modest profit growth while Document Technology declined due to revenue and transaction currency headwinds and cost reduction timing.

Revenue in the quarter was down 4% in actual currency and 3% in constant currency, an improvement from the 5% constant currency decline in quarter four. Services top line was up 2% in constant currency with growth in both Document Outsourcing and BPO. Document Technology declined 9% in constant currency and drove the overall revenue decline. I'll speak more about both segments in a moment.

Gross margin of 30.3% was down 130 basis points year over year, driven by declines in Document Technology and a greater mix of Services, which structurally has a lower gross margin. RD&E was lower by $8 million year over year and SAG was down $35 million or 4%. Good expense reductions in absolute terms but not sufficient to offset gross margin declines resulting in operating margin of 7.2%, down 130 basis points year over year, and an 18% operating profit decline.

Adjusted Other, net expense was higher by $8 million year over year, driven by higher litigation reserve while equity income of $37 million in the quarter was up $3 million year over year. Our first-quarter adjusted tax rate of 22.5% was below our guidance range of 26% to 28% benefiting our earnings by about $0.01 and reflecting higher foreign tax credits as well as the geographic mix of profits. Bottom line, adjusted earnings of $0.22 was within our guidance of $0.21 to $0.24 and was $0.02 lower year over year driven by Document Technology.

Taking a closer look at Services, results in the quarter were largely in-line with expectations. Good top-line growth continued in Document Outsourcing and BPO was up slightly. Margin improved modestly year over year. Together those drove 2% segment profit growth.

Services revenue grew 1% or 2% in constant currency. BPO was up 1% in constant currency as growth from acquisitions and new contract ramp, particularly in healthcare, more than offset headwinds in commercial from volume declines and lost business. Our decision and subsequent agreements with California and Montana not to complete the Health Enterprise Medicaid platform implementation was a revenue headwind but was partially offset by last year's first-quarter California Health Enterprise adjustment.

Good growth continues in Document Outsourcing, up 5% at constant currency, driven by strong Xerox Partner Print Services growth as well as strong equipment revenue growth in large enterprise accounts following strong 2015 signings. Total signings in the quarter were down 11% year over year but up 9% for the trailing 12 months. The year-over-year decline was driven by fewer renewal opportunities this quarter.

The total contract value of our new business signings was up 6% year over year driven by good growth in public sector. Our renewal rate in the quarter was quite strong at 89%, so at the high-end of our 85% to 90% range. Services segment margin was 7.7%, up 10 basis points year over year.

Improvements in government healthcare, including the Health Enterprise decisions we made last year, were partially offset by margin declines driven in part by Customer Care where we have operational and efficiency opportunities. We've hired two well-respected leaders from the industry, and they are beginning to implement changes to drive improved results.

Document Outsourcing margins, while down modestly in the quarter, remain strong and well above the overall Services margin. So good progress on growth, and we're taking additional action to drive further margin improvement.

I'll now turn to Document Technology. This was a challenging quarter for the Document Technology business with economic, currency and product cycle headwinds. Revenue was down 9% at constant currency, in-line with quarter four.

Equipment revenue was down 14% year over year including much higher declines in developing markets, especially the Middle East and Russia. Supplies revenue was down 7% year over year, much better than quarter four as channel inventory returned to more normalized level. When we include Document Outsourcing with Document Technology, the revenue decline continued at about 5%, which largely reflects the current revenue profile of the new Document Technology company post-separation.
Turning to activity, within entry, A4 color MFD growth was up 1% but overall results were pressured by developing markets. Midrange color MFDs also grew 1% driven by growth in Document Outsourcing. We’re expecting the new i-series products launched in March to result in better midrange growth as we move through 2016.

High-end was the strongest performing product area with color installs up 56% including strong growth in the Entry Production color products and iGen. And we’re looking forward to the upcoming drupa Printing Tradeshow in early June where we will be highlighting a number of exciting new production printing products, especially in production inkjet.

Document Technology margin of 10.2% was down 250 basis points year over year. As you know, quarter one is seasonally weak. Approximately 100 basis points of the year-over-year decline was driven by transaction currency.

At March 31 rates, we expect very modest transaction currency impact in quarter two and for the balance of the year. Equipment price declines in the quarter remained within our historic range of 5% to 10%. The quarter-one margin also reflects productivity, only partially offsetting the impact of revenue declines.

Following lower restructuring in the second half of 2015, we significantly ramped up restructuring in quarter one and expect to capture incremental benefits from the strategic transformation program as we move through the year. Despite the first-quarter challenges, we’re confident the trend in both revenue and margin will improve, benefiting from recent product launches and cost actions.

Moving to cash flow, operating cash flow was the use of $25 million in the quarter and in-line with our expectations, reflecting lower net income, a Health Enterprise settlement payment and normal working capital seasonality following a strong close to 2015. Investing cash flows were a use of $125 million and included $72 million spent on CapEx, a $52 million payment to Atos for the final working capital adjustments from the 2015 ITO divestiture and $18 million invested for a small Technology acquisition.

Cash flow from financing was a $42 million use and includes $77 million for preferred and common stock dividends. In the quarter we retired a $700 million senior note and refinanced it with a senior unsecured bank loan. Our cash balance at the end of the quarter was $1.2 billion and continues to provide us flexibility as we move through 2016.

Turning to our capital structure and capital allocation, we ended quarter one with $7.4 billion of debt, roughly in-line with our year-end debt level. Applying 7 to 1 leverage to our customer financing assets, our allocated financing debt at the end of Q1 was $3.9 billion, leaving core that of $3.5 billion. We continue to manage our capital structure to maintain credit metrics consistent with our investment grade credit rating.

Now to touch on capital allocation. We have a strong shareholder returns track record having returned over 70% of free cash flow to our shareholders since 2011. Building on this, we announced last quarter an 11% increase to our common dividend effective with the dividend payable on April 29 of this year. We did not repurchase any shares in the quarter.

Turning to the next slide, I will share with you our second-quarter earnings expectations and update our full-year guidance to incorporate the separation-related costs and higher restructuring which Ursula just discussed earlier. For the second quarter, we expect adjusted earnings in the range of $0.24 to $0.26 and GAAP earnings of $0.06 to $0.08. For the full year, we are reaffirming our revenue guidance of a 2% to 4% constant currency decline and adjusted earnings guidance of $1.10 to $1.20 per share.

We are maintaining our segment revenue growth and margin guidance ranges for both Services and Document Technology. We’re adjusting our full-year GAAP guidance to incorporate the $200 million to $250 million of separation cost that Ursula previously discussed. Separation costs include professional fees, transaction cost and operational separation investment.

We haven’t yet included any tax charges to prepare for the separation. We plan to share additional separation details in July after we file the initial Form 10.
As Ursula mentioned, we're accelerating our strategic transformation initiative and therefore expect to incur higher restructuring and related costs. We now expect to spend $300 million for the full year, $100 million more than we previously guided. And in quarter two, we expect to incur about $100 million in restructuring costs.

Including the separation costs and the higher restructuring costs, we now expect full-year GAAP EPS of $0.45 to $0.55 per share. We're adjusting our cash flow guidance to reflect both the cash separation costs and higher restructuring. We began this year with operating cash flow guidance of $1.3 billion to $1.5 billion.

We indicated at the time that our guidance included $200 million of restructuring costs but did not yet contemplate separation costs. Factoring in cash separation costs of $200 million to $250 million and the $100 million higher restructuring costs, we now expect operating cash flow of $950 million to $1.2 billion. We are also modestly increasing our CapEx guidance to $350 million to incorporate separation expenditures resulting in updated free cash flow guidance of $600 million to $850 million.

This is an unusual year with separation-related investments pressuring cash flow well below normal levels. We're revising our capital allocation expectations to reflect our updated free cash flow guidance. Dividends will be approximately $350 million for the year and reflect the 11% increase.

We expect acquisition investments will approximate $100 million, and we'll use the remainder of our free cash flow to reduce debt as we seek to optimize the capital structures of the two companies. Share repurchases have been a significant part of our capital deployment during the past few years including $1.3 billion last year as we returned to shareholders a large portion of our strong cash flow including the ITO divestiture proceeds. This year, given the separation, we don’t plan to repurchase any shares.

So in summary, a mixed quarter but we met our guidance and remain committed to delivering our full-year objective with accelerated, strategic transformation benefits to protect the bottom line. With that I'll hand it back to Ursula to wrap up.

Ursula Burns - Xerox Corporation - Chairman & CEO

Thank you, Leslie. To recap, at the end of the first quarter we are on track to deliver on our plans for the year.

Our first-quarter results were in-line with expectations. We saw good performance on key measures in our Services business and continued pressure in our Document Technology business. We’re taking decisive actions to address our challenges and improve margins including accelerating our cost optimization efforts in line with the strategic transformation program that we announced in January.

Looking ahead, we're focused on our three commitments: meeting our guidance, reaching the targets for our strategic transformation program and completing our separation. We remain confident that we will do so.

With that, let me turn it over to Jennifer.

Jennifer Horsley - Xerox Corporation - Director of IR

Thanks Ursula. Before we get to your questions for Ursula and Leslie let me point out that we have several supplemental slides at the end of our deck which provide more financial detail to support today’s presentation and complement our prepared remarks.

For the Q&A, I would ask participants to limit follow-on and multipart questions so we can get to everyone. At the end of our Q&A session, I will turn it back to Ursula for closing comments.

Operator, please open the line for questions now.
QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Tien-tsin Huang, JPMorgan.

Tien-tsin Huang  -  JPMorgan - Analyst
Hey, good morning. Thanks for taking the question.

I guess the first one, just on the restructuring, I just wanted to clarify the higher restructuring cost, is the incremental more on the Doc Tech side or the Services side? What is included there?

Ursula Burns  -  Xerox Corporation - Chairman & CEO
We expect the additional restructuring to span the business - both Doc Tech and the Services business as well as our central corporate cost. So not focused on either side particularly spanning both businesses.

Tien-tsin Huang  -  JPMorgan - Analyst
Got you. And I'm curious with the plans on the restructuring, I think we talked about this a little bit last quarter, just the impact on Services and signings and renewals.

It sounds like nothing stood out this quarter but how does it feel, Ursula, in terms of the conversation flow? I noted that the margins have been holding up even with some of the healthcare changes, so any additional color you can share there? Thank you.

Ursula Burns  -  Xerox Corporation - Chairman & CEO
I think just focus a little bit on your question, yes, what we're seeing in the business and the actions that we're taking is to assure that we when we separate these two businesses, and obviously in 2016 as well, that we get the cost structure and operating model right for these two businesses. When we look at restructuring and all of the strategic transformation programs, it's focused on leaning out the infrastructure of the business, so spans and layers, everything from spans and layers to how we approach the market from a selling perspective, how we approach the market from a supply chain perspective, etc.

All in leaning out cost and efficient operation not to impact our revenue flow or how we service our customers. And I think that what we've shown in the first quarter is the ability to actually do that, to drive restructuring and kind of fall in our expectation range and hold up our full-year commitments in both BPO and in Doc Tech and in the full Company perspective.

So I think you're right, we're trying to balance all of these things. There's a lot of stuff going on but I think we're keeping our eye on the ball and delivering fairly well. In line with separation as well by the way, we'll do that by the end of the year.

Operator
Ananda Baruah, Brean Capital.
Ananda Baruah - Brean Capital - Analyst

Hey guys, thanks for taking the question. So I guess just quickly a question clarification. You guys mentioned $700 million in annualized savings this year.

Was just hoping to get some context around that. How much of that is to the bottom line versus invested? And I guess might quick calc is that it's something like $0.60 which is big.

So if you could give us some sense of pass-through versus invested. And then as part B of that, is the tax-free spin, are those tax saves in there as well? Just context around that and how that would hit, thanks.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

Hi, Ananda, it's Leslie. So first of all with regard to the $700 million of annualized savings this year, it's consistent with what we had previously said and underscores our commitment to deliver adjusted earnings of $1.10 to $1.20 this year.

We, as you noted, increased the restructuring. Quite frankly we did that in order to underscore our ability to deliver the range, even though Document Technology revenues have begun the year a bit softer than we would have liked. So this year we don't anticipate investing any of the $700 million. Any investments of restructuring savings are ahead of us, not in 2016.

With regard to the tax-free spin, I think what we've said is it's tax-free from a federal income tax perspective. Any tax dis-synergies associated with the spin or any one-time tax costs associated with the spin will be explicitly identified post the Form 10 filing, so as we get to quarter-two earnings announcement at the end of July.

Jennifer Horsley - Xerox Corporation - Director of IR

Thanks, Ananda. Do you have another follow-up?

Ananda Baruah - Brean Capital - Analyst

I was going to ask quickly, now that you've identified sort of the amount initially of the cost saves, like where should we think about in the context of Ursula's comment they lying across both businesses, where is just the major buckets for the cost saves and the efficiencies as we move forward? That would be helpful. Thanks.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

So you should think about them benefiting both gross margin and SAG.

Ursula Burns - Xerox Corporation - Chairman & CEO

In both businesses, by the way, in both the BPO and the Doc Tech business.

Operator

George Tong, Piper Jaffray.
George Tong - Piper Jaffray & Co. - Analyst

Thanks, good morning. Ursula, can you discuss how you might frame up potential cost dis-synergies that will arise from the split including how dis-synergies may compare with the cost synergies you originally achieved from the ACS acquisition?

Ursula Burns - Xerox Corporation - Chairman & CEO

So George, what we're going to do on dis-synergies is we're going to try to hold that conversation until the middle of the year when we can get a better grasp on what they are specifically and not kind of dribble it out. But some of the general dis-synergies are what you call independent company cost dis-synergies. Setting up a board, those types of things are the general buckets, but we don't want to get too far ahead of ourselves and kind of piecemeal it out.

We will have some very specific clarity in the middle of the year when we file some of the Form 10 documents and start to communicate more. But think about setting up two independent companies and the structures that you need for that.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

So George, it's Leslie. If I could just add onto that a bit. We certainly expect that over time the benefits from our strategic transformation will significantly outweigh any of the dis-synergies associated with running two companies.

As you know, as Ursula just mentioned, there are certainly public company costs. But when you look at dis-synergies that typically impact other companies, there will be less that we face because we haven't done a tremendous amount of integration of BPO with what was the Doc Tech organization.

George Tong - Piper Jaffray & Co. - Analyst

Very helpful. And Ursula or Leslie, Services margins in the quarter came in below the full-year guidance range which means there will be a catch-up event that will have to happen later in the year. Can you discuss your expectations for the cadence of Services margin improvement through the year and what those drivers are? Thanks.

Ursula Burns - Xerox Corporation - Chairman & CEO

Yes, think about expansion throughout the year quarter by quarter. That's the expectation, the plan. Services margins came in about where we would have expected them to come in.

We expected to be below at the lower end of our full-year ranges in the first quarter, it's a seasonally lighter quarter for us in general, and second quarter will be better third and fourth, like that. We are fairly confident of coming in and that's why we are reiterating the guidance on our Services margins for the full year. And by the way for our EPS for the adjusted EPS for the full year, our cash flow, we've adjusted down and our Doc Tech we've reiterated as well, so it's kind of come in where we expected.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

So George, a couple of things. You know we took $126 million of restructuring charges in quarter one. That should benefit both businesses as we move through the year.

We've announced another $100 million of restructuring in quarter two which should also benefit the margins of both businesses as we move through the year. We called out a specific weakness in quarter one in customer care where we have new leadership that we've recently brought
into the Company and we do expect to be able to address some of those operational and efficiency challenges as we move through the year. So we’re pretty optimistic about delivering the 8% to 9.5% Services segment margin for the year.

George Tong - Piper Jaffray & Co. - Analyst
Thank you.

Operator
Shannon Cross, Cross Research.

Shannon Cross - Cross Research - Analyst
Thank you very much. I wanted to dig a bit into the Doc Tech margins and especially given that this is a drupa year and there may be some I would assume timing challenges with when the expenses for drupa versus theoretically the benefits coming through on the commercial print side.

So when we think about the 12% to 14% operating margin target that I assume you guys are holding to here and you were at 10% this quarter I know there’s a lot of restructuring going on but can you maybe give us some idea of how we should balance the need to invest in drupa, which only happens once every four years, versus sort of the timing of the cost cuts coming through since you did lay off a pretty significant amount of people in the first quarter.

Ursula Burns - Xerox Corporation - Chairman & CEO
Yes, so I will start and then Leslie will chime in. And I just want to start with a level of clarity about what we are reiterating. We are absolutely reiterating full-year Doc Tech margin in the 12% to 14% range.

That is we are confident that we can deliver that. We are also reiterating Services margins in the 8% to 9.5% range. We’re reiterating revenue, our revenue guidance and we’re reiterating our adjusted EPS guidance.

All of those things, four or five I just mentioned, are not changed at all. We did have a lower delivery of margin in the first quarter for Doc Tech but we are very confident drupa, other product launches, timing of our savings, the flow of currency and how it affects our margins, they will all come out in the next three quarters, delivering somewhere between the 12% and 14% margins that we spoke about. Leslie can speak more on this as well.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR
So, Shannon, just to reiterate, transaction currency cost us about 100 basis points year over year in terms of the Doc Tech margin. So Doc Tech margin of 10.2% down 250 basis points, 100 of that was transaction currency. We believe that $19 million pressure in quarter one turns to essentially negligible in quarter two.

And when you add on top of that the restructuring benefits that we expect to capture from the restructuring that we did in quarter one and that we’re doing more of in quarter two we’re very, very confident of being able to get to the 12% to 14% range for the year.

With regard to drupa, you’re absolutely right, it is an investment that we make once every four years. But it is relatively modest compared to, for instance, the transaction currency headwind that we faced in quarter one.
Shannon Cross - Cross Research - Analyst

Okay, thank you, that was helpful. And then Ursula, can you talk a little bit about just philosophically if anything has changed in how you think about the capital structure of the two companies once they are split; how you think about what type of debt paydown might be required on the Doc Tech side, given some of the pressures? Or just has there been any changes as you've worked through the last few months looking at the split?

Ursula Burns - Xerox Corporation - Chairman & CEO

So the answer to that in general is no. I'll answer the question from the combined Company perspective; that's the best way to address it. And we'll talk about the split companies when we get further in the year. Our ability to generate cash and to have it available to operate the business in 2016 is identical, nearly identical, to our ability to generate cash and have it available in 2015.

It's really important that we understand that, that you understand that. About $1.6 billion operating cash flow in the year in 2016. We have to spend more on restructuring, which we talked about. I think that's a good investment, a very solid investment in 2016, and will benefit us some in 2016 and will definitely benefit the two companies as we separate. We have separation costs which are unique in 2016. We will have some in 2017, but a very small amount, a very, very small amount.

We have normal CapEx of about $300 million. We have an additional $50 million of CapEx associated with separation that is also unique in 2016. That gives us a cash balance, a new free cash flow, of somewhere between $600 million and $850 million. But most of that $850 million to $600 million, the reason why we're there is because of things that we don't expect to repeat in 2017.

So as we flow into 2017 and leave 2016, we'll have a cash ability, generating ability of the two new companies that will be circa $1.6 billion just like it is this year without these one-time costs associated with the separation and with the big restructuring that we're taking. So we don't say -- we don't view that a lot has changed over the last four months that we've talked to at all.

We're getting more clear which we expect to do. We get more clear as we speak to you throughout the year but it is important that you keep an eye on the fact that the fundamental cash flow and fundamental operations of the business hasn't changed that much.

Shannon Cross - Cross Research - Analyst

Thank you.

Operator

Steve Schneiderman, BMO Capital Markets.

Steve Schneiderman - BMO Capital Markets - Analyst

Hi, thank you very much for taking my call. I'm filling-in for Keith Bachman today.

So my question is regarding capital allocation. We noticed that you reduced the M&A target towards the lower end of the previous range.

What we want to ask is that more a reflection of market conditions, a focus on separation or more of a reduced confidence to get the deals in the pipeline over the hump? And as a follow-up to that regarding share repurchases, can you talk a little bit more about the decision to waive the share repurchase for the rest of the year and focus more on the debt reduction, what some of the puts and takes work and why the focus in that regard?
Yes, I will start with the M&A and I will have Leslie take the share repurchase. Last quarter we guided that we would be in the $100 million to $400 million but at the lower end of the range. What we’re doing this quarter is we’re narrowing it to the lower end of the range.

We don’t expect for us to be in the $400 million range so we’ve actually taken that off. Most of the change is driven by the fact that we’re doing the separation. It’s not really a big indication of any significant change in the market.

We are pushing hard for the $100 million as I said between both Doc Tech and Services with a big focus on starting these two companies with the right financial position and capital structures. And that’s why share repurchase, M&A, debt reduction are all being played against each other to ensure that we have good capital structures.

For M&A $100 million towards the lower end of the range, we’re zeroing there. Share repurchase, Leslie will talk about it, but we’ve moved share repurchase off the table, did $1.3 billion last year, a very, very large amount of share repurchase last year. And we don’t think that we’ll do any this year with a focus on debt reduction.

So I think Ursula has stolen most of my thunder. As she said, we did do $1.3 billion of share repurchase last year and we have also increased the dividend which is the other way that we return capital to our shareholders.

With modest M&A this year, we are going to prioritize the remaining cash toward debt reduction in order to optimize the capital structure of both companies. So we’re pretty intent on insuring that each of the two new companies starts competitive, starts lean and starts with an optimized capital structure. And that’s where we’re focusing our efforts.

Hi, thank you. I just wanted to ask about this slide 9 and the contract signings. I didn’t hear you mention it in the call.

But with regard to the 14% decline in contract signings, I was just wondering if any of that is a function of your de-emphasis on government healthcare? Like is that really an apples-to-apples number or is there something else going on?

So it’s actually lower renewal opportunities in the quarter. So we’re really pleased with the renewal rate that we delivered in the quarter of 89% which is at the high-end of our 85% to 90% target range. But there were less renewal opportunities.

We’re also really pleased that the business signings in the quarter were up 6% year over year. So strong new business, less renewal opportunity but strong renewal rate.
Ursula Burns - Xerox Corporation - Chairman & CEO

We do expect the renewal opportunities for the full year to be essentially the same as it was in 2015. But as you probably know, if you don't know now that renewals come in the year at various times. So we expect the full-year bucket to be about what it was in 2015, maybe a little bit higher.

James Friedman - Susquehanna Financial Group/SIG - Analyst

That was my follow-up. So that's helpful. Thanks for the clarification.

Operator

Brian Essex, Morgan Stanley.

Brian Essex - Morgan Stanley - Analyst

Good morning and thank you for taking the question. I was wondering if I could touch a little bit on the BPO side of the business, so up 1% constant currency.

Given what you see in the pipeline, particularly with the signing of the toll road contract now and then New York MMIS coming, are there any I guess how much visibility do you have into long-term growth? What might you anticipate that growth to be relative to I think you stated last quarter the BPO industry growing at 5%? And what kind of lever should we look for as we go throughout the year to achieve those benchmarks?

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

Okay, so it's Leslie. I think over the longer term we are certainly focused on growing at the market. There are clear industries where we participate well like healthcare, like transportation, like customer care where over time we for sure should grow at the market rate.

In the near term, we do have some puts and takes associated with some contracts that we have opted out of or contracts that we've lost. So we're pleased with the BPO growth in quarter one and believe that for the year it will enable -- BPO combined with Document Outsourcing will enable us to deliver the Services revenue growth that we've committed which is flat to up 3%. BPO will be a little lumpy in certain quarters depending upon the prior-year compare.

Brian Essex - Morgan Stanley - Analyst

Any color in terms of contracts that you've either kind of skipped or opted out of and what the philosophy is around growing the business going forward? What were the dynamics of those contracts and were they issue riddled or pricing related or what might we be able to take away from those?

Ursula Burns - Xerox Corporation - Chairman & CEO

Yes, so outside of the government healthcare space where we've made, and Health Enterprise in particular where we've made a set of very conscious decisions to not complete the platforms, in general if we move out of a contract it's because the contract profitability doesn't meet our thresholds. That's basically we don't have a lot of these, this is not a large bucket of business, but we are being very disciplined in assuring that as we move forward with contracts that it's, particularly if they are not in the areas of focus for us, which are transportation and healthcare, if they are not in those areas and they have a very low profitability or marginal profitability we will move out of those contracts, obviously working with the client and not leaving them in the lurch.
Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

And as we think about the new business that we compete for, we're also being very measured in ensuring that the new business that we take on has the margin profile that we’re seeking longer term for the Services business.

Brian Essex - Morgan Stanley - Analyst

Thank you.

Operator

Matt Cabral, Goldman Sachs.

Matt Cabral - Goldman Sachs - Analyst

Thank you, I wanted to dig a little bit deeper into the impact of currency and specifically the yen on Doc Tech margins. If I look at current spot rates on the yen, it looks like it will be about 9% year over year across the remaining three quarters relative to a 4% comparison in Q1. I guess with that in mind, why wouldn’t we expect the margin headwind to get a little bit worse throughout the balance of the year relative to the 100 basis point headwind that you saw in the first quarter?

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR

So, Matt, there's a few things that I think you should understand about the impact of the yen. First of all, we have a currency risk sharing arrangement with Fuji Xerox where they take half the good news or the bad news and we take the other half. That happens over time.

Second of all, we do hedge. And therefore the impacts of currency movements will be more muted and will flow in over time.

The last point that I would make vis-a-vis the yen strengthening in particular is that it tends to lead to a less competitive or a more muted competitive pricing environment, a good thing. And we also have the benefit of translating our equity income from Fuji Xerox at a more attractive rate when the yen is strong.

Matt Cabral - Goldman Sachs - Analyst

Thank you. Then Ursula, as a follow-up, you mentioned in your prepared remarks that you've identified some ways to sharpen the business strategy and improve execution post-split. Is there anything at this point you can share in those opportunities?

And then related to that, how should we think about the go-forward strategy for the two businesses heading into 2017 after this split is finalized relative to how these businesses have been run over the last few years?

Ursula Burns - Xerox Corporation - Chairman & CEO

I think we’ve had a pretty intense engagement over the last I think let’s say six weeks or so that has been refreshing, painful but refreshing in many ways. And for both our Doc Tech business, Doc Tech with DO now, and our BPO business we have found ways to improve three major areas.

One is how we approach our customers, how we approach them organizationally and in what areas we dive deep with them. And that help us on the top line, how do we organize that go-to-market in a little bit more efficient way.
Second is how do we adjust our cost base inside particularly, we’ve talked about this a lot, spans and layers where we’ve done a lot of work but with the help of some outside resources we’ve been able to look to find ways to even be more sharp there.

Then as we separate the two companies we’re taking this chance to look at just about every other piece of the business that moves and figuring out a way to lean that out those pieces of business that move, lean them out and be significantly more efficient. The fundamental strategies, though, of the Doc Tech business and the BPO business, the fundamental strategies are the same.

What we’re doing here is we’re rounding the edges a bit to make ourselves even more efficient. I was pleased with the work that we’ve done so far. But we still have some work to do.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR
Ursula said I think there’s two primary outcomes. One is sharpening the strategy for each of the two businesses. And the second is for sure improving our strategic execution. And part of the strategic execution is the transformation that we’ve been talking about.

Operator
Jim Suva, Citigroup.

Jim Suva - Citigroup - Analyst
Thank you very much. Realizing that the separation has a lot of added costs and a lot of the costs are upfront breakup fees, can you help us understand are 100% of them, are the majority of them all going to hit this year or do separation costs continue beyond this? I’m talking separation not dis-synergy, which I believe your dis-synergy costs are permanent in nature.

Leslie Varon - Xerox Corporation - Corporate VP, Interim CFO & VP of IR
So the separation costs are dominated by both cost and outflows this year. There will be minimal costs that are incurred and cash outflows that are incurred in 2017.

Jim Suva - Citigroup - Analyst
Great, thank you. And then – go ahead, Ursula.

Ursula Burns - Xerox Corporation - Chairman & CEO
No, I was just asking if you had more questions. So continue, please.

Jim Suva - Citigroup - Analyst
As a follow-up on the Document Technology, it’s clear it started off a bit softer than expected in Q1 but you’re kind of maintaining your goals for Document Technology for 2016. Is it the additional restructuring that’s going to come in and close that gap there or easier comps or some visibility to something that you can give us some confidence?

Because it looks like the operating margins and just the whole segment overall is starting off a little bit not like where you’d like to. So how do you kind of close that gap? Thank you.
Ursula Burns - Xerox Corporation - Chairman & CEO

Thanks, Jim. Full year, we were careful to be clear about the full year this year because we know that we had -- we have a lot of ups and downs in any given quarter.

On a full-year basis Doc Tech margins, Doc Tech revenue, we are reiterating our guidance and confidence that we'll be able to get there. So no debate there.

As far as the margins go and the revenue in the first quarter, they were a little bit lighter than we would have expected but not anything that would allow us, that would cause us as I said to change our guidance. If you think about what we did in the second half of last year, and actually in the first quarter so far of this year, but in the second half of last year, we took no restructuring in the Doc Tech business.

We did all of our restructuring in the Services segment. So we knew that we would have pressure in margins in the first quarter because we had literally no restructuring to offset the revenue declines. We've doubled up on restructuring in the first quarter.

We have even more to do and we've announced an additional $100 million in the second quarter and we'll top the year at $300 million of restructuring which is why we are confident that we'll be able to actually hit the margin range for the full Company that we talked about, the EPS that we talked about and the adjusted EPS that we talked about. And the revenue shouldn't change that much.

So the way the business is flowing, no restructuring second half of the year, big restructuring this year, help us to maintain and drive the margin range that we talked about in Doc Tech and in Services. And no, we're not moving away from focusing on the market and we will be able to actually hit the revenue guidance that we've given as well.

Jim Suva - Citigroup - Analyst

Great, thank you very much for the detail from you and your team.

Jennifer Horsley - Xerox Corporation - Director of IR

Thanks, Jim. That's all the time we have for questions today.

Thanks for your interest. Ursula, anything to wrap up?

Ursula Burns - Xerox Corporation - Chairman & CEO

This is, as you can sense from listening to the call, this is a significant year for Xerox. We have three fundamental commitments that we have made to our shareholders.

The first is to deliver our 2016 guidance. We are on track to do that. We are reiterating our full-year guidance in EPS and in revenue, we're doing that for both BPO and for Doc Tech and for the full Company.

Second is to actually implement a strategic transformation that gives us two very strong companies, well seeded companies on January 1 of 2017. And we are well on board, well on past to do that. And we are very confident in our ability to hit the second.

The third is to hit the separation date which is January 1, 2017. A lot of work on that going very well. And we're very confident in our ability to do that.
So these three things we are focused on and we’re pleased with the progress we are making and very confident in our ability to pull it off. So thank you for joining our call today and we’ll see you next quarter.

**Operator**

Thank you. Ladies and gentlemen, thank you for your participation in today’s conference.

This does conclude the program and you may now disconnect. Everyone have a good day.