Xerox Reports First Quarter 2016 Results

First-Quarter Overview

- EPS: adjusted1 EPS of $0.22/share, GAAP EPS from continuing operations of $0.03/share
- **Q1 total revenue** of $4.3 billion; down 4% YOY or 3% CC* - **Services**: up 1% YOY or 2% CC* - **Document Technology**: down 10% YOY or 9% CC* - **Annuity revenue** of $3.7 billion; down 3% YOY or 2% CC*; 87% of total - **Equipment revenue** of $560 million; down 10% YOY or 9% CC*; 13% of total
- **Operating margin** of 7.2%; down 1.3 pts YOY
- **Segment margins**: Services 7.7%, Technology 10.2%
- **Operating Cash Usage** of $25 million

Balance Sheet/Cash

- **Operating Cash Usage** of $25 million
- **CAPEX** of $72 million
- **Acquisitions** of $18 million
- **Adj. avg. fully diluted share count**2: 1,021 million
- **Ending fully diluted share count**2: 1,048 million
- **Ending debt** of $7.4 billion
- **Ending cash balance** of $1.2 billion

Guidance

- Maintaining FY Revenue and Adjusted Earnings guidance
- GAAP EPS, Cash Flow and Capital Allocation updated to reflect $200 - $250 million of separation costs, $100 million of additional restructuring and $50 million of separation CAPEX
- **Revenue**: FY 2016 down 2 to 4% CC
- **EPS**2: - **Q2 2016 adjusted**: $0.24 - $0.26  - **FY 2016 adjusted**: $1.10 - $1.20  - **GAAP (from Continuing Operations)**: Q2 2016: $0.06 - $0.08; FY 2016: $0.45 - $0.55
- **Q2 & FY 2016 adjusted**1 tax rate: 26% - 28%
- **FY Operating Cash Flow**: $950M - $1.2 billion
- **FY CAPEX**: ~$350 million
- **FY Free Cash Flow**: $600 - $850 million
- **FY Dividends**: ~$350 million
- **FY Acquisitions**: ~$100 million
- **Debt Repayment**: remainder of Free Cash Flow

Services Segment

- **Q1 revenue** of $2.5 billion; up 1% YOY or 2% CC*
- **Services 58% of total company revenue**
- **Revenue mix** of 68% BPO, 32% DO
- **Segment margin** 7.7%; up 0.1 pts YOY - Government Healthcare drives BPO improvement
- **Year-over-year revenue**: - **Business Process Outsourcing (BPO)** flat or up 1% CC* - **Document Outsourcing (DO)** up 2% or 5% CC*
- **Metrics**:
  - **Signings of $2.1 billion TCV** - Down 11% YOY and up 9% TTM - New business TCV up 6% YOY - Lower renewal opportunities drive lower total signings - **Renewal rate (BPO and DO)** of 89%

Document Technology Segment

- **Q1 revenue** of $1.6 billion; down 10% YOY or 9% CC* - Revenue decline consistent with Q4 - **Annuity revenue** down 9% YOY or 7% CC*, 74% of revenue - **Equipment revenue** down 15% YOY or 14% CC, 26% of revenue
  - Including DO, printing revenue down 5% CC* in-line with Q4
- **Segment margin** 10.2%; down 2.5 pts YOY
  - Significant Q1 restructuring initiated to mitigate margin pressure
- **Revenue mix** of 19% entry, 57% mid-range, 24% high-end

Installs3

- **Overall Install Growth**
  - **Color**
    - High-End4 56% (8)%
    - Mid-Range 1% (14)%
    - Entry A4 MFDs5 1% (16)%
  - **B&W**
    - Good growth in High End color driven by Entry Production Color
    - Mid-Range impacted by late quarter timing of i-series product launch

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* Constant currency (CC)
(1) Adjustments include amortization of intangible assets, restructuring and related costs, non-service retirement related costs and separation costs.
(2) Average shares for the calculation of adjusted EPS for first quarter 2016 exclude 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of $6 million is 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 installs exclude digital front end sales.
(5) Entry installs exclude OEM sales, including OEM sales Color A4 up 117%, B&W A4 up 11%

Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2016 earnings release posted on our website at http://www.xerox.com/investor