

# Xerox Reports Second Quarter 2016 Results

## Second-Quarter Overview

- **EPS:** adjusted<sup>1</sup> EPS of \$0.30/share, GAAP EPS from continuing operations of \$0.15/share
- **Q2 total revenue** of \$4.4 billion; down 4% YOY
  - **Services:** down 2% YOY or 1% CC\*
  - **Document Technology:** down 7% YOY or 6% CC\*
  - **Annuity revenue** of \$3.7 billion; down 4% YOY or 3% CC\*; 85% of total
  - **Equipment revenue** of \$675 million; down 6% YOY or 5% CC\*; 15% of total
- **Operating margin** of 9.3%; up 0.8 pts YOY
- **Segment margins:** Services 9.6%, Technology 12.6%

## Balance Sheet/Cash

- **Operating Cash Flow** of \$177 million, includes \$62 million of HE settlement payments
- **CAPEX** of \$73 million
- **Adj. avg. fully diluted share count**<sup>2</sup>: 1,049 million
- **Ending fully diluted share count**<sup>2</sup>: 1,049 million
- **Ending debt** of \$7.4 billion
- **Ending cash balance** of \$1.2 billion

## Guidance

- **Maintaining FY guidance**
- **Revenue: FY 2016 down 2 to 4% CC**
- **EPS:** - **Q3 2016 adjusted**<sup>1</sup>: \$0.26 - \$0.28
  - **FY 2016 adjusted**<sup>1</sup>: \$1.10 - \$1.20
  - **GAAP (from Continuing Operations):**  
Q3 2016: \$0.14 - \$0.16; FY 2016: \$0.45 - \$0.55
- **Adjusted<sup>1</sup> tax rate:** H2 26% - 28%; FY 24 - 26%
- **FY Operating Cash Flow:** \$950 million - \$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

- **Q2 revenue** of \$2.5 billion; down 2% YOY or 1% CC\*
- **Services 56% of total company revenue**
- **Revenue mix** of 66% BPO, 34% DO
- **Segment margin** 9.6%; up 2.4 pts YOY, up 1.9 pts sequentially
- **Year-over-year revenue:**
  - Business Process Outsourcing (BPO) down 4% or 3% CC\*
  - Document Outsourcing (DO) up 1% or 2% CC\*
- **Metrics:**
  - **Signings of \$2.9 billion TCV**
    - Down 7%\* YOY and up 2%\* TTM
  - **Renewal rate (BPO and DO) of 82%**

## Document Technology Segment

- **Q2 revenue** of \$1.8 billion; down 7% YOY or 6% CC\*
  - Revenue decline moderates and within FY target range
  - Annuity revenue down 7% YOY or 6% CC\*, 71% of revenue
  - Equipment revenue down 7% YOY or 6% CC, 29% of revenue
- Including DO, printing revenue down 3% CC\* (vs. down 5% in Q1)
- **Segment margin** 12.6%; up 0.1 pt YOY, up 2.4 pts sequentially
- **Revenue mix** of 18% entry, 58% mid-range, 24% high-end
- **Metrics (overall install<sup>3</sup> growth):**
  - High-End<sup>4</sup> color up 14%, B&W down 21%
  - Mid-Range color up 6%, B&W down 14%
  - Entry A4 MFDs<sup>5</sup> color down 9%, B&W up 2%

## Separation Progress

- **Completed critical separation milestones:**
  - Named CEOs for both companies
  - Initial Form 10 registration statement filed
  - Announced names for both companies
- **Separation costs:** refined range down to \$175 - \$200 million in pre-tax separation costs
- **Tax-related separation costs:** expect \$40 - \$50 million
- **Dis-synergies:** expect \$40 - \$50 million in total; more than offset by savings from transformation program
- **Strategic transformation program on-track**

\* 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 calculations of adjusted EPS for second quarter 2016 include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million is excluded. 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 74%, B&W A4 up 28%

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

