Xerox Reports Fourth Quarter 2016 Results
(Note: reflects financial results from continuing operations)

Fourth-Quarter Highlights

**Strategic Transformation** savings offset revenue declines
- Revenue pressure driven by equipment, annuity/post sale trend stable
- Adjusted Operating margin expanded

**Operating cash flow** seasonally strong and above expectations

**Balance Sheet/Cash**
- Operating Cash Flow of $462 million in Q4, $1 billion full-year
- CAPEX of $39 million in Q4, $138 million full-year
- Free Cash Flow\(^7\) of $423 million in Q4, $880 million full-year
- Adj. avg. fully diluted share count\(^3\): 1,055 million
- Ending fully diluted share count\(^3\): 1,055 million
- Ending debt of $6.3 billion, pro forma $5.3 billion
- Ending cash balance of $2.2 billion, pro forma $1.4 billion

**Guidance**
- FY Revenue: down mid-single digits at CC*  
- FY Adjusted\(^2\) Operating Margin: 12.5% – 13.5%  
- FY Adjusted\(^1\) EPS:  
  - FY 2017: $0.80 - $0.88  
- FY GAAP EPS (from continuing operations):  
  - FY 2017: $0.44 - $0.52  
- FY Adjusted\(^1\) tax rate: 25% - 28%  
- FY Operating Cash Flow from continuing operations: $700 - $900 million  
- FY Free Cash Flow\(^7\) from continuing operations: $525 - $725 million

**Fourth-Quarter Results**

- **EPS**: adjusted\(^1\) EPS of $0.25/share, GAAP EPS from continuing operations of $0.17/share
- **Total revenue** of $2.7 billion; down 7% YOY or 5% CC*  
  - Annuity/Post Sale revenue of $2.1 billion; down 5% YOY or 3% CC*; 75% of total  
  - Equipment revenue of $677 million; down 12% YOY or 10% CC*
- **Adjusted\(^1\) Gross margin** of 40.3%; up 0.1 pt YOY  
- **Adjusted\(^2\) Operating margin** of 14.0%; up 0.7 pts YOY

**Key Metrics**
- **Strategic Growth Areas**  
  - Comprised 38% full-year revenue, up 2 pts YOY  
  - Grew 2% CC* full-year
- **Strategic Transformation**  
  - $550M of gross savings full-year
- **Q4 Installs**\(^4\)  
  - High-End\(^5\) color up 3%, B&W down 18%  
  - Mid-Range\(^5\) color flat, B&W down 13%  
  - Entry A4 MFDs\(^6\) color down 8%, B&W down 19%
- **Q4 Signings** – Document Outsourcing (Large Enterprise)  
  - Signings of $0.8 billion TCV  
  - Down 18% CC* YOY and down 5% CC* full-year

**Guidance – Capital Allocation**

Available Cash for Capital Allocation: $1.0 - $1.2 billion
- Incremental Debt Repayment: ~$300 million
- Dividends: ~$280 million
- Acquisitions: ~$100 million
- CapEx: ~$175 million
- Opportunistic: $145 - $345 million (for debt repayment, M&A and pension contributions)
- No share repurchase planned in 2017

* Constant currency (CC)

(1) Adjustments include amortization of intangible assets, restructuring and related costs and non-service retirement related costs.
(2) Adjustments include those noted above for the Adjusted earnings measures, and additionally, the exclusion of other expenses, net, and inclusion of equity in net income of unconsolidated affiliates.
(3) Average shares for the calculations of adjusted EPS for fourth quarter 2016 include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of $6 million was excluded. Outstanding represents common shares outstanding as of December 31, 2016 plus potential dilutive common and preferred shares (includes shares associated with our Series A convertible preferred stock).
(4) Installs include Document Technology and Document Outsourcing segments.
(5) Mid-range and High-end installs exclude digital front end sales.
(6) Entry installs exclude OEM sales, including OEM sales Color A4 down 5%, B&W A4 down 13%.
(7) Adjusted measure to exclude amounts for capital expenditures, including internal use software, from cash flow from continuing operations.

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