Xerox Reports First Quarter 2017 Results

First-Quarter Highlights

- Revenue trajectory in-line with full-year expectations
- Operating margin YOY expansion continues as Strategic Transformation savings are offsetting currency headwinds and outpacing revenue declines
- Good operating cash flow
- Announced largest product launch in company history

First Quarter Results

Revenue $2.5B, down (6.2)% or (4.3)% CC*
- Equipment $502M, down (7.4)% or (5.7)% CC*
- Post Sale $2.0B, down (5.8)% or (3.9)% CC*; 80% of Total Revenue

Gross Margin – adjusted²: 39.8%, up 0.2 pts YOY
Operating Margin – adjusted³: 11.4%, up 90 bps YOY
Tax Rate – adjusted²: 27.5% vs. 21.4% in Q1 ’16
EPS: GAAP $0.02, adjusted² $0.15
Memo: EPS measures include negative 3 cent impact from Fuji Xerox’s out-of-period receivables charge

Operating Cash Flow from continuing operations $190M, up $103M YOY
Free Cash Flow⁴ $164M; CAPEX $26M
Ending debt $5.0B
Ending cash balance $1.0B

Key Metrics

Strategic Growth Areas revenue grew 1% CC* and comprised 39% of total, up 2 pts YOY
Strategic Transformation savings target of $600M for FY 2017 on track
Enterprise MDS Signings of $0.5B TCV declined 6% CC* YOY

Q1 Installs – YOY % change
- Entry A4 MFDs⁵ color up 15%, B&W up 1%
- Mid-Range color⁶ flat, B&W down (24)%
- High-End color⁶ down (15%), B&W down (25)%

FY Guidance

Reiterating FY 2017 Guidance:
- Revenue down mid-single digits at CC*
- Operating Margin – adjusted³: 12.5% - 13.5%
- EPS – adjusted²: $0.80 - $0.88
- GAAP EPS from continuing operations: $0.44 - $0.52
- Tax rate – adjusted²: 25% - 28%
- Operating Cash Flow from continuing operations: $700 - $900M

* Constant currency (CC)
(1) Equipment sales revenue in 2016 has been revised to reclassify certain Global Imaging Systems equipment sales to Other sales, which are included in Post Sale revenue (see Q1 2017 Earnings Presentation Appendix for revised amounts).
(2) Adjustments include amortization of intangible assets, restructuring and related costs, non-service retirement related costs and other discrete items.
(3) 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.
(4) Adjusted measure to exclude amounts for capital expenditures, including internal use software, from cash flow from continuing operations.
(5) Entry installs exclude OEM sales, including OEM sales Color A4 down (13%), B&W A4 down (3)%
(6) Mid-range and High-end installs exclude digital front end sales to Fuji Xerox.
Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2017 earnings release posted on our website at http://www.xerox.com/investor.