

Xerox Reports Fourth-Quarter 2017 Results

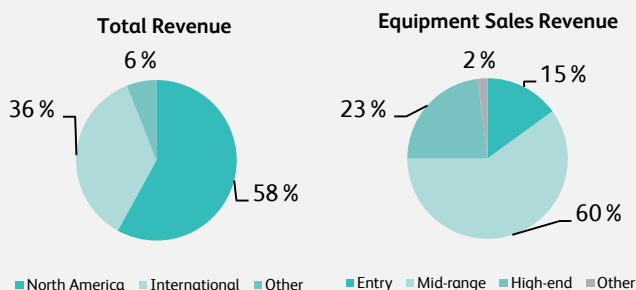
Fourth-Quarter Highlights

- Strong fourth quarter; positions us well entering 2018
- Adjusted¹ EPS and net income expand year-over-year
- Equipment turns to growth with increasing demand for new products; strategic growth areas up 5% CC¹
- Achieved operating margin gains while supporting future revenue initiatives
- Continued strong adjusted² operating cash flow, at higher end of guidance range

Fourth-Quarter Results

Revenue \$2.7B, up 0.5% or down 2.0% CC*

- Equipment \$682M, up 4.3% or 1.5% CC*
- Post Sale \$2.1B, down 0.7% or 3.1% CC*; 75% of Total Revenue



- **Gross Margin – adjusted¹**: 40.4%, up 0.1 pt YOY
- **Operating Margin – adjusted³**: 14.4%, up 0.2 pts YOY
- **Tax Rate – adjusted¹**: 26.2% vs. 21.1% in Q4 '16
- **GAAP Loss per share**: \$(0.78), down \$1.48 YOY due to U.S. Tax Act related charge of \$400M
- **EPS – adjusted¹**: \$1.04, up 4 cents YOY
- **Operating Cash Flow** from continuing operations \$(28)M, includes \$350M impact of A/R sales programs elimination
- **Operating Cash Flow – adjusted²**: \$322M
- **Ending debt** \$5.5B, includes \$475M used in Oct to re-finance a portion of our May 2018 Senior Notes
- **Ending cash balance** \$1.3B

Key Metrics

Strategic Growth Areas⁵ revenue FY up 1% CC* and comprised 40% of total, up 2 pts YOY

Strategic Transformation savings of \$680M exceeded FY target of \$600M

Enterprise MDS Signings: \$1.0B TCV up 20% CC* YOY

MDS revenue up 3.4% or 0.8% CC* YOY

Installs – YOY % change

- Entry A4 MFPs⁶ color up 32%, B&W up 34%
- Mid-Range color⁷ up 14%, B&W up 1%
- High-End color⁷ down 5%, B&W down 10%

FY 2018 Guidance

- **Revenue** down 2% - 4% at CC*
- **Operating Margin – adjusted³**: 13% - 14%
- **GAAP EPS** from continuing operations: \$2.30 - \$2.50
- **EPS – adjusted¹**: \$3.50 - \$3.70
- **Tax rate – adjusted¹**: 24% - 27%
- **Operating Cash Flow**: \$900M - \$1.1B
- **Free Cash Flow⁴**: \$750M - \$950M
- **CAPEX**: ~\$150M
- **M&A**: \$150M - \$200M
- **Debt Reduction**: ~\$265M

* Constant currency (CC)

(1) Adjustments include non-service retirement-related costs, restructuring and related costs, amortization of intangibles, as well as other discretely identified adjustments; unique to Q4 2017 were \$7M for loss on early extinguishment of debt, \$9M for transaction/proxy related costs and an estimated non-cash charge of \$400M related to the enactment of the U.S. Tax Act. (2) Adjusted for previously announced \$350M impact of certain accounts receivable sales programs elimination. (3) Adjustments include those noted earlier for the Adjusted earnings measures as well as 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 operating cash flow. (5) Strategic Growth Areas include MPS & Workflow Automation, A4 MFPs and Production Color revenues. (6) Entry installations exclude OEM sales, including OEM sales Color A4 MFPs up 15%, B&W up 26%. (7) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales (DFEs); including DFEs, Mid-range color was up 14%, and High-end color decreased 12%.

Please see our forward looking statements and non-GAAP reconciliation contained in our fourth-quarter 2017 earnings release posted on our website at <http://www.xerox.com/investor>.

