Xerox Reports Third-Quarter 2018 Results

Priorities
- Drive Revenue
- Optimize operations for simplicity to better serve clients and partners
- Re-energize the innovation engine
- Focus on cash flow and increase capital returns

Highlights
- Strong Cash Flow in the quarter, increasing FCF guidance
- Returned 75% of YTD FCF to shareholders through dividends and share repurchase
- Adjusted Operating Margin expansion

Third-Quarter Results

Revenue $2.4B, down 5.8% or down 4.7% CC
- Equipment $0.5B, down 3.8% or down 2.7% CC
- Post Sale $1.8B, down 6.4% or down 5.2% CC; 78% of Total Revenue

MDS revenue down 0.6%, up 0.9% CC YOY
Installs – YOY % change
- Entry A4 MFPs color down 8%, B&W up 21%
- Mid-Range color up 8%, B&W up 19%
- High-End color down 17%, B&W down 3%

Key Metrics

- Gross Margin: 40.1%, flat YOY
- Operating Margin – adjusted: 13.1%, up 1.0 pt YOY, including 60 bps impact from higher equity income
- Equity Income: $43M, up $13M YOY
- Tax Rate – adjusted: 24.5% vs. 19.3% in Q3 ‘17
- GAAP EPS: $0.34, down 33 cents YOY, including (37) cents or $(95)M of a non-cash charge related to a change in a provisional estimate for the Tax Act.
- EPS – adjusted: $0.85, down 4 cents YOY, including (5) cents from a higher tax rate.
- Operating Cash Flow (OCF): Q3 $274M; YTD $725M
- Free Cash Flow (FCF): Q3 $251M; YTD $652M
- Ending debt: $5.2B ($3.4B financing & $1.8B core),
- Ending cash balance: $1.2B

Financial Expectations

- Increasing full-year guidance: OCF of $1.0B-$1.1B and FCF of $900M-$1.0B
- Increasing share repurchase expectations for 2018 to $700M
- Will provide an update on our strategy and longer-term financial expectations at an analyst day in early February 2019

(1) Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures contained in our third-quarter 2018 earnings release and slides posted on our website at http://www.xerox.com/investor.
(2) Entry equipment revenue excludes OEM business, which is included in Other equipment revenue.
(3) Entry installations exclude OEM sales, including OEM sales Color A4 MFPs down 41%, B&W down 4%. Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales (DFEs); including DFEs, Mid-range color was up 8%, and High-end color down 18%.

For additional information, please refer to our forward-looking statements and non-GAAP reconciliations contained in our third-quarter 2018 earnings release posted on our website at http://www.xerox.com/investor.