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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Xerox Holdings Corporation Second Quarter 2020 Earnings Release Conference Call, hosted by John Visentin, Vice Chairman and Chief Executive Officer. He is joined by Bill Osbourn, Chief Financial Officer. During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor.

At the request of Xerox Holdings Corporation, today’s conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the expressed permission of Xerox. After the presentation, there will be a question-and-answer session. [Operator Instructions]

During this conference call, Xerox executives will make comments that contain forward-looking statements, which by their nature address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Mr. Visentin. Mr. Visentin, you may begin.

Giovanni John Visentin  
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Good morning, and thank you for joining Xerox’s Q2, 2020 earnings call. I hope everyone is safe and healthy. For the second quarter, revenue totaled $1.47 billion, down 34.6% in constant currency year-over-year. Company-wide cash preservation efforts allowed us to deliver positive cash flow, earnings per share and operating margin. Free cash flow for the quarter totaled $15 million, down $245 million year-over-year. Adjusted earnings per share totaled $0.15, down $0.64 year-over-year and adjusted operating margin was 4.2%, down 820 basis points year-over-year.
I'm proud of our team. It was not easy to deliver profitable results and continue investing in key areas of growth, while the bulk of our markets were fully or partially shut down during the quarter. The fact that we did, speaks volumes about the progress we have made in transforming this company and culture into one of continuous improvement. This is an extraordinary time in our lives. One that has challenged each of us to be better, do more and demonstrate that the situations we face only improve when all of us are working together. That's true for the pandemic and for the continuing battle against racial inequality.

Xerox has approximately 26,000 employees located in more than 40 countries working at approximately 250 of our own facilities and onsite at thousands of customer locations, many of whom deliver essential services. After we initially closed our offices in March to all but essential workers, we stood up a dedicated team that quickly develop comprehensive safety protocol to keep employees and clients safe. While taking a cautious, methodical and phased approach, we have now reopened roughly half of our own facilities and more than 50% of our active employees have resumed working onsite in some capacity.

We continue to monitor COVID-19 transmission trends to ensure employees engaged an onsite work remain safe. A new solution we developed Xerox's Teams Availability app provides a real-time view of each employees work location, availability and compliance with the company's health and safety protocols. Our Path forward plan has been a tremendous undertaking but it's one that is necessary to ensure we can continue to safely conduct our business, support our partners and service our clients.

No one can control or accurately predict what will happen next in the pandemic. There is ongoing uncertainty about the spread of the virus globally. Some places around the world that have previously not experienced outbreaks or had improved dramatically are now seeing a rise in cases. We have modeled numerous scenarios to ensure that we have flexibility no matter how the pandemic continues to impact global business.

Given the uncertainty, it is difficult to predict the timing and pace of the recovery and the full impact on our financial results this year. We are not providing financial guidance for 2020 at this time. However, we expect we will continue to deliver positive free cash flow during the second half of 2020. We remain 100% committed to driving system-wide efficiencies throughout the company and investing in new capabilities that allow us to capitalize on growing demands in technology, many hastened by the sudden shift to remote work. This includes: security, remote IT support, collaboration tools and other tools that ensure employees are productive and can work securely no matter where they are.

Despite the overnight impact the pandemic had on most industries, our Q2 results demonstrate the discipline we've instilled in the business over the last two years. Our four strategic initiatives remain at the core of our approach: optimizing operations, drive revenue, reenergize the innovation engine and focus on cash flow and increasing capital returns. Project Own It has imparted a strong sense of ownership across the company as we streamline and optimize the business.

As a result, the company entered into this pandemic in a position of strength and was able to nimbly balance cash expenditures with investments needed to position Xerox for future growth. We remain on track to deliver at least another $450 million in gross savings this year which will bring the total of three years to at least $1.4 billion. A key part of optimizing our business is investing in technologies that increase efficiency and responsiveness to customers. One area where investments are accelerating is automation.
Today, bots are now performing more than 1.2 million transactions a quarter at Xerox, automating processes within parts of the supply chain, remote solve, technical service and more. We are expanding adoption of this technology throughout the company and beginning to provide similar support to clients.

Today, Xerox has flexibility at its core allowing us to scale up and down depending on market realities. It is the reason the business could quickly respond to the pandemic immediately instituting a cash preservation plan in March and it's the reason we are confident we can manage this business successfully throughout any scenario presented. We remain intensely focused on positioning the business for continued success in printing and future success in related and in entirely new areas.

Today, there was a major debate happening around the role of the office in the future. Will we all work remotely going forward? Will companies give up their office for good? We don't see that happening. Many surveys including a Xerox Future of Work Survey conducted in May suggest most employees will eventually return to the workplaces once it's safe. It also found companies have gotten more comfortable with remote working than they were in the past, so we are likely to see more flexibility to work from home.

Increasingly, companies are articulating the drawbacks of working from home as long-term solutions. While some are keeping people home in the short term for safety reasons, we believe the office will continue to play a vital role for the years to come. It is the reason companies bring people together on a regular basis to build culture and community, develop talent, drive faster decision-making and deliver strong results. That said, ensuring security and enabling productivity will be key in a hybrid work environment.

IT decision-makers included in our survey also said they are accelerating their digital transformations and prioritizing investments in cloud-based software, remote IT support and workflow automation. This is where the industry has been headed and where our focus has been in recent years. At the heart of the Xerox ecosystem is the hardware, software and services that will help companies transition from largely paper-based processes to digital ones that turn information into knowledge.

We have seen some healthcare clients, particularly hospitals, accelerate digitization projects to turn paper-based information into a digital format that's easier for secure processing and follow through. One large hospital system in the UK needed to expedite implementing a solution that will provide seamless delivery of critical patient communication while support staff worked remotely.

A solution like this integrates into our larger Digital Patients offering, allowing us to expand the work we do with healthcare providers to address their immediate and future needs. Other digital offerings such as XMPie and DocuShare are seeing stronger pickup as companies seek to collaborate, digitize paper-based processes and rapidly share information with the dispersed workforce. Revenue in these areas increased year-over-year and they have expanding pipelines.

We have a growing pipeline for our Virtual Print Management Services launched earlier this year. By allowing companies to rapidly replace expensive legacy on-premises print servers with Xerox's secure cloud infrastructure, IT organizations can save up to a third of their typical print server costs. IT services are now offered in the US, Canada and the UK and we are seeing that business grow.

Outside technical expertise is especially important to the SMB community as they seek to support remote workforces, face growing security concerns and automate manual workflows to reduce costs. Revenue and IT services have expanded this year and we've built a strong backlog for the second half. While the core printer
business will continue to face pressure, the company’s strong diverse portfolio continues to beat competitors and winning business by offering differentiated capabilities at all levels.

In Q2, we saw renewals improved from prior year and equipment backlog increased from last quarter. Demand in federal and healthcare remained strong with enterprise ESR growing in both. Strong interest in the embellishment market where Xerox is a leader in helping clients produce higher value pieces at an affordable price remained. The recent introduction of the Adaptive CMYK+ Kit for the Versant puts these capabilities within clients’ reach for a reasonable price. 11 toners with 1 million possibilities provides enormous differentiation potential for Xerox customers. This enhancement is now available on three entry production devices.

In the workplace, we will continue to differentiate our multifunction printers with apps and solutions that speed digital transformation and support workers in and out of the office. This quarter's launch of the next-generation AltaLink is one example. Combined with ConnectKey apps, including connections to the most popular cloud solutions, the AltaLink can help the businesses as they shift from physical to digital enterprises.

The world of A4 is shifting too from a home printer product to a work-from-home printer that provides increased capability, security and ability to connect seamlessly into the office network. Longer term innovations remained focused on addressing some of business and society's biggest needs. In the second quarter, our teams made progress across the innovation pillars with IoT, predictive analytics, AI-infused platform, Clean Tech and 3D printing among other things.

The impact of COVID-19 has accelerated needs in many of these areas. For example, COVID-19 has highlighted the risk of globally dispersed supply chains for many businesses with many experiencing delays in getting parts and products during the crisis. Integrating a localized 3D printing solution can improve supply chain resiliency, flexibility and responsiveness and can minimize the risk of disruption. Xerox's liquid metal 3D printing solution will allow manufacturers to make production-grade parts using off-the-shelf alloys without sacrificing quality, strength or safety standards. The team remains on track to deliver its first product by year-end.

In IoT, we are engaging customers that are interested in our industrial asset health monitoring and predictive maintenance solutions in continuous manufacturing and the critical infrastructure markets. Our solutions allow companies to monitor their assets, plan their maintenance operations to reduce planned and unplanned downtime and increase operational safety and efficiency. We are testing solutions internally now and expect to start external pilots with select customers by year-end.

In Clean Tech, the team working on our early stage technology to improve the energy efficiency of air conditioners is on track to complete the prototype by the end of the year. Air conditioning is one of the single biggest causes of greenhouse gases and advancing a potential solution is an example of how we are reenergizing our innovation roots to create benefits for businesses and society.

The healthcare initiatives stood up during the quarter specifically hand sanitizers and disposable ventilators are gaining traction. We plan to double production capacity for hand sanitizers in September from our capacity today, while taking longer to obtain regulatory approval to sell global markets. There is a growing interest in disposable ventilators we are manufacturing and external distributors have signed up to sell these products globally.

The team has consistently demonstrated its ability to manage cash well. It is an area of strength and it will remain so as we maintain a strong balance sheet and liquidity throughout the crisis. The cash preservation plan put into effect in March allowed us to close the quarter with approximately $2.3 billion of cash and cash equivalents and $1.8 billion undrawn revolver This month, we refinanced $340 million of debt and approximately $740 million of
debt maturing in the balance of 2020 that we also expect to refinance. Core debt levels remains within an investment grade credit metrics range.

We remain committed to our shareholders return policy including the current dividend rate and plan to return at least 50% of annual free cash flow. There is $700 million of share repurchase authority outstanding and we currently plan to complete at least $300 million of share repurchases in the second half.

I covered many of these frequently asked questions in my earlier comments, so I will quickly recap a few key points. The company's strategic initiatives have prepared us as best as possible for this unprecedented situation. No one had a pandemic baked into their outlook this year or any year. That said, the hard work this team has done in recent years to transform Xerox proved instrumental in moving quickly to respond. We have evaluated numerous recovery scenarios to ensure we are prepared for whatever happens next.

Today Xerox is nimbler and more efficient. The sudden move to remote work revealed technology gaps in many industries, Xerox is well-positioned to help address. We have the technology, the long term relationship and the trust to help clients speed their digital transformation from paper to digital while also powering up a flexible workforce. We remained focused on growing the business through a mix of organic and inorganic investments using the same disciplined approach we have in the past.

Now I'd like to hand it over to Bill to cover our financial results in detail.

William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thank you, John. As we stated during our Q1 earnings call, we assessed the impacts on our business under numerous recovery scenarios and we expected COVID-19 to have a significant impact on our business in Q2 based upon the impact that we experienced from the one month of business closures in the first quarter and the expectation that closures would continue through most of Q2.

We saw signs of recovery later in the quarter as parts of the US and some countries in Europe began to lift lockdowns, thereby allowing businesses to reopen offices. And our current base case scenario reflects a slow, gradual recovery in the second half of the year. Our focus on cash and expense management has only intensified as we manage through the crisis. In order to mitigate the impact on our revenue from the crisis, we implemented cost reduction actions focused on cash preservation beginning in mid-March. Through Project Own It, we have developed not only a strong cost discipline, but also a more flexible cost structure that allows us to scale up or down quickly to ensure the strength of our business, which enabled us to deliver positive earnings and free cash flow in the second quarter.

The cash preservation actions in response to COVID-19 are aimed at discretionary items and are incremental to the initiatives under our Project Own It program and both programs are continuing. The speed with which we are able to identify discretionary areas of costs that could be cut without impacting our future development actions and execute on those actions is a testament to our team and the discipline developed Through Project Own It.

Under our cash preservation program, we also identified opportunities to use certain temporary government assistance programs to provide cost relief while enabling us to thus far minimize financial impact on our employees. Although our revenue declined approximately $800 million in the quarter compared to the same quarter in 2019, we were able to generate $15 million of free cash flow in the quarter and $165 million of free cash flow in the first half of this unprecedented year. Importantly, our balance sheet remains strong and we have
sufficient liquidity including an undrawn $1.8 billion revolving credit facility that matures in August of 2022 and approximate $2.3 billion of cash, cash equivalents and restricted cash at the end of the quarter.

Now looking at our financial results. Total revenue in the quarter declined 34.6% at constant currency. The decline reflects sustained business closures during the quarter that delayed purchasing decisions and installations of orders in hand as well as the impact of lower print volumes as people were not in the office printing.

Turning to profitability, all the ratios and measures presented here were significantly impacted by the decline in revenue resulting from the pandemic. Let me start with adjusted operating margin which was 4.2% in Q2 or 820 basis points lower year-over-year. The impact of lower revenue was partially offset by cost reductions from our Project Own It program and from the actions implemented to mitigate the impact of COVID-19 including cost relief from temporary government assistance programs.

Gross margin of 38.5%, decreased 60 basis points which is primarily from lower revenue, in particular, from lower post-sale revenue which carries higher margins as well as headwinds from price reductions that are in line with prior quarters, transaction currency and tariffs. Benefits from Project Own It actions and other incremental actions taken to mitigate the impact of COVID-19 partially offset the impact from the decrease in revenue and other headwinds.

SAG, as a percentage of revenue increased 630 basis points year-over-year, reflecting lower revenue which was partially offset by productivity benefits from Project Own It and savings from the incremental cost reduction actions we put in place. Also, it is important to note that in the first quarter, we increased our bad debt provision by $61 million to cover the potential impact to our customers from the pandemic. During the second quarter, we reviewed our bad debt reserve and determined it to be sufficient and consistent with future expectations regarding the impacts from the COVID-19 crisis.

Therefore, no incremental reserves were required and bad debt expense for the second quarter of 2020, of $13 million was effectively flat as compared to the second quarter of 2019. We will continue to monitor developments regarding this crisis in the future periods to ensure appropriate reserve levels. Last, RD&E as a percent of revenue increased 130 basis points, reflecting the lower base of revenue. RD&E expense declined $12 million year-over-year, partially due to cost reductions on older generation products, consolidation of core R&D activities in the prior year and the timing of investment, and as John mentioned, we continue to make progress in our five innovation areas.

Below operating profit, other expenses net of $7 million was $31 million better than the prior year due to lower non-service retirement-related costs of $18 million and lower non-financing interest expense of $8 million. The lower non-service retirement-related costs were driven by lower losses from pension settlements in the US and lower non-financing interest expense as a result of lower average debt balance.

Our second quarter adjusted tax rate was 23.4% compared to 26.6% in the prior year. The lower tax rate year-over-year is primarily due to the geographic mix of profits as well as the impact of discrete items on lower pre-tax income. Adjusted EPS of $0.15 was down $0.64 compared to the same quarter last year driven by the impact of COVID-19 on our operations which more than offset the benefit from cost reductions, lower interest expense, lower tax rate and lower shares.

GAAP EPS of $0.11 per share was $0.49 lower year-over-year including the aforementioned $0.64 decline in adjusted EPS partially offset by net benefit in non-GAAP adjusted items primarily from lower restructuring and
related costs, lower non-service related pension expense and lower tax on these adjustments. Non-GAAP adjustments to EPS include restructuring and related costs, the amortization of intangible assets, non-service retirement related costs and transaction and related costs net as well as the income tax on those adjustments. In Q2, we reported $3 million of restructuring and related costs which includes a $9 million reversal from prior period estimates.

Moving to slide 7, I'll discuss cash flow. In Q2, we generated $34 million of operating cash flow from continuing operations which was $242 million lower than prior year due to lower net income and a use from cash from working capital that was partially offset by lower finance assets and lower cash taxes. Working capital cash was $68 million worse than prior year due to increased use of cash from inventory and accounts payable which was partially offset by increase in cash from accounts receivable.

Inventory reflects lower sales volumes and reduced purchases by indirect channel partners who are managing their inventory levels to protect liquidity during the crisis. And accounts payable reflects decreased spending and the timing of payments to vendors While accounts receivables primarily due to lower revenue. Restructuring payments of $70 million (sic) [$17 million] were in line with prior year. CapEx was $19 million in the quarter and free cash flow was $15 million. We expect CapEx will be in line with our prior year guidance for full year 2020 supporting the programs to drive our strategic growth plan including continued investments in our IT infrastructure.

There were no acquisitions in the quarter. However, we continue to assess our pipeline of tuck-in acquisitions and strategic M&A. We spent $193 million in Q1 to expand our SMB strategy internationally and we expect full year spend for tuck-in M&A will be in line with prior guidance.

Within financing cash flows, we repaid a $313 million senior unsecured bond with cash in the quarter and effectively refinanced this bond in July through a finance receivable securitization. We returned $57 billion in dividends to shareholders and we did not repurchase shares in the quarter. We managed capital conservatively this quarter, given the uncertainty of the pandemic and the expected impact it would have on our business. We executed on our cost management initiatives and preserved our cash ending the quarter with $2.3 billion of cash, cash equivalents and restricted cash.

Let's turn to slide 8 for more detail on our revenue. Second quarter revenue declined 34.6% in constant currency and reflects the impact of widespread business closures that extended through the quarter and caused delay in customer purchasing decisions and lower print volumes. Geographically, we saw larger revenue declines in Europe where more of our sales are through indirect channel partners who are protecting their liquidity and managing their inventories in response to lower demand.

In North America, we have more sales through direct channels and there is a higher percentage of large enterprise customers including government and healthcare customers that continued to operate through the crisis. Equipment sales revenue was down 38% in constant currency. While we saw improvement in North America and Europe in June as countries and certain offices began to reopen, we are cautious in projecting a trend based upon June, given the recent outbreaks of the virus in certain parts of the US and developing markets, although we do expect performance to improve gradually in the second half.

In the US, our large enterprise business continued to see growth in sales to federal government and healthcare customers who have been operational through this crisis. Also, as we mentioned last quarter, we were unable to install approximately $100 million of purchased orders as a result of business closures in March. Approximately
40% of those orders were installed in the second quarter and we expect to install another 45% in the second half of this year with the remainder either canceled or delayed beyond 2020.

Looking at product categories, mid-range was most impacted by office closures as this category of products is mostly used in offices and shared workplaces. Mid-range sales decreased in indirect channels, which as I mentioned impacts Europe more than North America. However, the US was also down significantly reflecting delays in purchasing decisions.

In the high-end, we had good activity in black and white production supporting transactional printing applications, where production color sales were down reflecting primarily lower sales of our Versant entry-production color system in Iridesse production press due to the impact of the crisis on our distribution channels and lower demand caused by the pandemic.

Next, revenue from Entry-Products, both black and white and color, was down reflecting the impact on our indirect channel partners and continued [ph] lockdowns (00:29:49) in Latin America. The decline was partially offset by higher sales in the low end of the portfolio which supports work-from-home offerings. Post-sale revenue declined 33.6% in constant currency. Our post-sale revenue is largely contractual and our context generally include a fixed minimum charge as well as a variable component for service and supplies that is based upon print volume. Historically, on average, the variable component is approximately 50% of our contractual revenue stream.

The widespread business closures due to the pandemic had a significant impact on page volumes, which is evident in the decline in our post-sale revenue this quarter. We saw the greatest impact in April and May and moderation in the rate of decline of pages from contractual agreements in June. Unbundled supplies, paper and other sales, which are largely sold through our indirect channels, also decreased approximately 50% in the quarter, reflecting lower demand caused by the crisis which is driving channel partners to reduce their inventory purchases also in order to protect the cash.

Xerox services revenue declined approximately 28% year-over-year in constant currency with new business signings down due to delays in customer purchasing decisions. We had growth in Services renewals in the quarter, which is the second consecutive quarter of higher renewals, although the rate of increase was lower in the second quarter as we experienced customers delaying renewal decisions and extending existing contracts citing the uncertainty of the environment. We have a building pipeline, which gives us confidence that our business will continue to improve as the economy rebounds.

Last, our investments in IT services, software and digital services are gaining traction. The expansion of IT services within XBS channel in the US and through recent acquisitions in Canada and the UK, contributed to increased sales in the second quarter compared to the first quarter even with restrictions to enter some of our customers' locations. These offerings, which also support a flexible work environment, are resonating with customers and our IT services pipeline is growing.

Next, turn to slide 9 in our profit and earnings. Adjusted operating margin was 4.2% in the quarter, which was 50 basis points lower than the first quarter. We expected the pandemic to have a sizable impact on our business in Q2 and, in March, we quickly began to implement actions to manage costs and preserve cash focusing on discretionary spend.

As I mentioned, these actions are incremental to the planned actions under our Project Own It transformation program and, among other areas, targeted marketing expense and reducing the use of contract employees across the organization. In addition, we used certain temporary government programs in the US, Canada and
Europe provide cost relief without further use of cash while minimizing the impact on our employees. We are continuing actions to reduce costs and preserve cash through the second half.

We were able to act quickly in response to the pandemic as a result of the progress on our Project Own It transformation program. Through this program, we have developed a disciplined approach to cost management and a more flexible cost structure. Project Own It initiatives are continuing and the program is on track to deliver at least $450 million in gross cost savings this year. Adjusted EPS of $0.15, declined $0.64 year-over-year and as discussed earlier reflects the impact of COVID-19 on our operations, which offset the benefits from cost reductions, lower interest expense, lower tax and lower shares.

Moving on to slide 10 and to review of our capital structure. We ended the quarter with $4 billion of debt, of which $3 billion supports customer financing activities and therefore, we break down our debt between financing debt and core debt. Financing debt is allocated by applying a 7 to 1 leverage to our finance receivables and equipment under our operating lease which together comprised our total finance assets. Core debt was approximately $1 billion, and we ended the quarter with approximately $2.3 billion of cash, cash equivalents and restricted cash which puts us in a net cash position of approximately $1.3 billion when netting cash against core debt.

In May, we repaid a $313 million senior unsecured bond with cash, which is why our debt is approximately $300 million lower than year-end. However, in July, we effectively refinanced the May bond with a $340 million finance receivables securitization. This was an attractive transaction that provides match-funding for a portfolio of US finance receivables. For the balance of 2020, we have approximately $740 million of bonds maturing which we planned to refinance. Our liquidity position remained strong with approximately $2.3 billion of the cash, cash equivalents and restricted cash and a $1.8 billion bank revolver which is fully available to us.

Our pension funded status is updated annually and as of December 31, 2019, our net unfunded pension liability was $1.2 billion which included approximately $815 million of unfunded pension liabilities for plans that by design are not funded. In 2019, we contributed a $141 million to worldwide pension plans and expect 2020 contributions will be in line with prior guidance.

Last, turn to slide 11 for some thoughts on the balance of 2020. For the second half, under our current base case scenario, we are expecting a slow gradual recovery. Our outlook considers the continuing impact from the virus particularly in certain areas of the US and in developing markets and the current pace of business reopenings and capacity limitations within offices and other shared workplaces.

Accordingly, we do not anticipate a recovery in our revenues to pre-COVID-19 levels this year. Although it is expected we will continue to deliver positive free cash flow in the second half of 2020. While we are planning for our gradual recovery in the second half, we've evaluated our business under numerous scenarios to be ready to manage through a more elongated recovery if required. As we demonstrated in the second quarter, we are resilient and we are prepared to execute on additional levers to manage through longer recovery scenarios.

Given what we know today, it is difficult to predict the timing of recovery and the full impact on our financial results this year. Therefore, as John advised, we are not providing financial guidance for 2020 at this time. On capital allocation, we remain committed to our dividend and our policy of returning at least 50% of free cash flow to shareholders and we plan to repurchase at least $300 million of our shares during the second half of this year. We have a strong balance sheet and liquidity which supports our dividend policy and the resumption of our share repurchases in the second half.

I will now turn it back to John before going to Q&A.
Thank you, Bill. Now, let's open the line for questions.

Thanks, John. Before we get to the Q&A with John and Bill, I will point out that we have in the appendix to our materials additional supplemental reconciliations and posted on our Xerox Investor Relations website a full set of earnings materials. Operator, please open the line for questions now.

QUESTION AND ANSWER SECTION

Our first question comes from Ananda Baruah with Loop Capital.

Hi. Good morning. Thanks for taking the question. And hey congratulations guys on solid execution in a really tough environment. Yeah, just a few for me if I could. So you're talking about sort of gradual improvement through the balance of the year, do you feel as if we sort of like June quarters then sort of the new sort of bottom in the revenue stream and I really would like to get a sense of if you think that we can consider this to be kind of like the baseline business. And then I have a couple quick follow-ups after that. Appreciate it.

Yeah. Hi, Ananda, look, our base scenario is for a slow gradual recovery and — but we're modeling numerous scenarios so that we have the flexibility no matter how this pandemic continues to impact us.

And John and Bill as well, you made a handful of remarks sort of with regards to CapEx and some of the initiatives around model optimization, should we think of this as being sort of the core cost structure going forward, familiar with the Own It initiatives and that sort of thing. And I guess really what I'm asking is it sounds like — well, could you guys do something more significant from a cost structure perspective or...

Yeah.

...is it more going to be along the lines of what you've been doing over the last couple of years.
Giovanni John Visentin  
_Vice Chairman & Chief Executive Officer, Xerox Holdings Corp._

Yeah, Ananda, I would say that again we're modeling and we have additional levers to right-size our expense structure if necessary that are more long-term, but we'll consider it as required.

William F. Osbourn Jr.  
_Chief Financial Officer & Executive Vice President, Xerox Holdings Corp._

Yeah. I guess I'd only add is that as we said in the prepared comments, Project Own It has given us a discipline to be able to be flexible with respect to our costs to right-size and I think we showed in Q2 with an $800 million revenue hit being able to adjust our cost structure in a relatively short period of time to mitigate at least a portion of that to generate positive free cash flow and adjusted EPS during the quarter and scenarios going forward as John said, we're modeling those and we believe that we have levers to be able to adjust and right-size as appropriate.

Ananda Baruah  
_Analyst, Loop Capital Markets LLC_

Thanks. And then the last one for me is free cash flow question. So, you've given some metrics around share buyback and we can back into what the dividend is for the year and then you also mentioned of still targeting your original tuck-in M&A target. So, that would seem to suggest that – well, here's really my question, should we assume that you're going to use free cash flow for all of those and if so, I guess we can take that as being your minimum free cash flow expectation in the full year?

William F. Osbourn Jr.  
_Chief Financial Officer & Executive Vice President, Xerox Holdings Corp._

Yeah. I guess the way I'd look at it is year-to-date $165 million of free cash flow including positive $15 million in a very difficult second quarter and we've said the second half of the year that we anticipate having positive free cash flow and being able to generate that in the second half. And so that $165 million plus essentially is what we are looking at for the full year and our guidance that we did – CapEx, we said in line with prior which was approximately $100 million, pension $135 million or so was our prior guidance.

And the M&A is mainly the tuck-in type M&A. We did $190 million or so in Q1 of tuck-in SMB types in the UK and Canada. And we gave guidance last quarter of $200 million to $300 million, but that just depends if the right deals are there. But just to go back and reemphasize what we said in our prepared comments is that we're very fortunate, we have a very strong balance sheet as a company overall with $2.3 billion in cash and cash equivalents on hand and the undrawn $1.8 billion revolver that gives us flexibility.

Ananda Baruah  
_Analyst, Loop Capital Markets LLC_

That's really helpful. Thank you, guys.

Giovanni John Visentin  
_Vice Chairman & Chief Executive Officer, Xerox Holdings Corp._

Thanks, Ananda.

Operator: Our next question comes from Matt Cabral with Credit Suisse.
Matthew Cabral  
**Analyst, Credit Suisse Securities (USA) LLC**

Yeah. Thank you. You guys talked about trends improving through June. Wondered if you could spend a little bit more on what that looked like and just broadly linearity through the quarter and also if you could just comment on if you’ve seen the momentum continue so far through July?

William F. Osbourn Jr.  
*Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.*

Yeah. So, as I said in the prepared comments, April and May were clearly the most difficult months of the quarter. We saw some improvement in the revenues in the June timeframe as businesses began to reopen. At this point, we’re predicting a slow gradual recovery over the rest of the year, but not confident enough to give the exact percentages of what that looks like.

Matthew Cabral  
**Analyst, Credit Suisse Securities (USA) LLC**

Got it. And then, John, you’ve touched on this briefly in your prepared remarks. But I’m wondering if you can say a little bit more on just what COVID means for the business longer term both in terms of the steady state outlook for office printing even once the health crisis is behind us and in the rearview mirror, and more broadly how we should think about that impacting Xerox’s operating model?

Giovanni John Visentin  
*Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.*

Yeah. Yeah, Matt, look, if you think of what companies are doing, they’re accelerating their digital transformation, they’re prioritizing investments, but what’s important to them is they’re focused on cloud-based software, remote IT support, workflow automation in a secure manner. And as we’ve seen over the last few years, we’ve been investing in these areas. So if you think of our ITS services that we now have ITS services available in the UK, in Canada and in the US our technical expertise, it’s important to SMB community because as they have workforces and workflows, it’s a growing concern for them especially in security on how do they automate their workflows.

If you think of our software, whether it's DocuShare or [ph] with an Adelaide (00:44:32) collaboration we've been investing in DocuShare and also DocuShare in the cloud. Hardware, even though folks will be working-from-home, what we're realizing is it's not just a printer, it's got to be secure. There are companies today that are putting – companies I've spoken to today that they're putting edicts that you can't print from home. If it's not on a secure network, it's not part of a whole secure workflow, you're unable to print from work.

So how do we start connecting seamlessly to the office? And that's what we've been investing in, and our cloud for workplace, so we just announced – not announced, we have the virtual print applications and it allows us, our clients to print anywhere, anytime in a secure manner. So we've been investing in these areas and that's where we see it going. But we don't – we also and I want to reiterate this we don't believe that no one is returning back to the office. We believe that a lot of employees will be returning back to the office and it's for all the reasons, productivity is one of them, security is another one, education and you can go on and on but more importantly we believe everyone will be working going back to the office once it's considered safe and that's what we've been spending a lot of time even with our organization with our path forward to assure that as we get our employees back to the office, it's done in a safe and consistent manner.
Matthew Cabral  
*Analyst, Credit Suisse Securities (USA) LLC*

Thank you.

**Operator:** Our next question comes from Shannon Cross with Cross Research.

**Shannon Cross**  
*Analyst, Cross Research*

Thank you very much. Just a couple for me. My first one is with regard to the high speed monochrome installs which were actually stronger in the quarter. And just in general, I'm curious what you're seeing in sort of the high end. Is this China coming back - well, actually I don't know if you [ph] sell (00:46:27) any through Fuji there, but clearly the iGen through Fuji, is there anything there? I'm just curious as to how that market is doing and then I have a follow-up.

**William F. Osbourn Jr.**  
*Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.*

Yeah. Hey, Shannon. It's Bill. Yeah, as you pointed out on the high-end Mono, we did grow year-over-year primarily related to transactional type printers, financial institutions for statements, et cetera and our Nuvera did well in the high-end black and white. On the color side, it was challenged, delayed decisions clearly as people are preserving their cash during the pandemic and it impacted in particular our mid and high-end sales. But we do believe that those will recover once the – past the pandemic.

**Shannon Cross**  
*Analyst, Cross Research*

Okay. And then the A4 business also was pretty strong in black and white. Was that effectively your ability to sell A4 into people who are now working-from-home or was there something else there?

**William F. Osbourn Jr.**  
*Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.*

Yeah. [indiscernible] (00:47:35) my prepared comments but in the lower end of the A4s in the black and white does serve work-from-home purpose and that did help mitigate some of the declines in – or the declines in the mid and higher ends of the entry segment.

**Shannon Cross**  
*Analyst, Cross Research*

Okay. And then just my last question, in the release and I think you mentioned it during your comments, I think you've got about $60 million from government programs during the quarter. I'm curious how much of that is recurring, how we should think about it just as – and I know there are new plans and stimulus and who knows. But just when you're thinking about your forecasting and budgeting for the remainder of the year, are you incorporating anything in there? Thank you.

**William F. Osbourn Jr.**  
*Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.*

Yeah. So, yeah, I mean those programs are from around the world, European countries, obviously US CARES Act, Canada, et cetera. And those each have varying timelines of [indiscernible] (00:48:29) but we factored into
our scenarios even without the extension of those we believe that we'll be able to generate positive free cash flow in the second half of the year.

Shannon Cross
Analyst, Cross Research

Thank you.

Operator: Our next question comes from Paul Coster of JPMorgan.

Paul Coster
Analyst, JPMorgan Securities LLC

Yeah, thanks for taking my question. I just want to follow up on the cash flow situation. It sounds like – well, first of all, you’re not reinstating guidance, but you are reactivating the share buyback. So it suggests to me that though there's a lot of uncertainty out there, it's a lot less than a quarter ago when you suspended the share buyback. Can you just comment upon that? I mean are we starting to attenuate the uncertainty and do you think we'll be reinstating guidance by year-end?

William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. As we said in our comments, we managed our cash conservatively during the second quarter as we're evaluating the impact of the pandemic on the company. We implemented the incremental cost actions over and above Project Own It. And by the end of the quarter, we got comfortable enough with what we're doing from a cash perspective to be able to state that we expect positive free cash flow in the second half in addition to the $165 million of free cash flow year-to-date. Based upon all of that, we were comfortable enough in reinstituting our share buyback and at least $300 million during the second half of the year.

Paul Coster
Analyst, JPMorgan Securities LLC

Okay. And then, John, I wonder if you could just give us a little bit of color around sort of – maybe anecdotal color around the conversation with enterprise customers, because it just seems so complicated at the moment. You've got all of these digitization processes playing out, which work against you in some ways and yet favor some of your new businesses. And the occupancy rate is going to improve, but maybe not to where we were. And you've also got enterprise IT budgets probably down 5% year-on-year anyway. How are they talking to you, what happens at the end of contract, are they sort of just delaying? You can perhaps give us some color around a couple of conversations you've had.

Giovanni John Visentin
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Yeah. Paul, it's exactly what you just said. All of the above, so the conversations are we're looking to get our employees back, it's going to be in a safe manner and it will take time and as we take time, we need to get them as productive as possible in a secure manner and what are some of the levers that you can help us with in these situations and that's where we're focused on our Workplace Cloud, our software, our ITS services.

Every CEO I've spoken to, and it's not just the CEOs, I don't think anyone believes we're not going back to the offices. It's really at what rate and pace and that's why we even modeled our own gradual recovery and we're modeling numerous scenarios because we need to have the flexibility no matter what happens going forward. But
if I look at our businesses and our ITS, our software and cloud workplace while they’re not large businesses for us, they've all grown during this pandemic and that gives us even more reason to put more [ph] wood behind it and focus on that with our clients.

**Paul Coster**  
Analyst, JPMorgan Securities LLC

But is the [ph] purchases are delaying or are you – I'm just wondering how much conviction you're seeing, yeah?

**Giovanni John Visentin**  
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Yeah, no, I would say that a lot of the purchasing, it's either delaying or not open. There's not much that we can say has been, we're not doing it.

**Paul Coster**  
Analyst, JPMorgan Securities LLC

Yeah.

**Giovanni John Visentin**  
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

We haven't had that many. In fact, we continue to get quite a few competitive wins as well and large wins and renewals. And what they're focused in some cases is just when, not if but when. So, we're not at the stage yet. I've not seen enough of where the clients are just canceling CapEx.

**William F. Osbourn Jr.**  
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

We believe it's more on the delay and we actually still see strong pipeline in the services area in both the Americas and in EMEA, we have double-digit growth in our pipeline in those areas which sort of points to also not cancellation, but just more delays in decision-making.

**Paul Coster**  
Analyst, JPMorgan Securities LLC

All right. Got you. Thanks so much.

**Operator:** Our next question comes from Jim Suva with Citigroup.

**Jim Suva**  
Analyst, Citigroup Global Markets, Inc.

Thank you very much. Bill and John, you guys both talked a little bit about the innovations you're coming out with whether it'd be liquid metal printing, hand sanitizers, ventilators something like that which is very encouraging. Is the goal eventually to have that just be kind of part of Xerox's core recurring normal business or I know I think it was about six months ago you legally changed some of the reporting – not reporting, the legal entity structure, does that make it so you're kind of looking at some point then monetizing that through like divestitures or standalone businesses or how should we think about that because it seems like you're actually positively bringing out some pretty innovative stuff out of research park?
William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. So – hey, Jim, it’s Bill. A couple of things, the HoldCo as – when we put that in place about a year or so ago, it clearly does give us flexibility to do things that you talk about putting things in a separate legal entity under the HoldCo potentially spin it off, partially sell et cetera. But no specific plans at this time with respect to any of our innovations. But you brought up the healthcare things that we’re doing in the hand sanitizer area and in the disposable ventilators.

The hand sanitizer has gone very well for us. In fact, we’re going to be doubling production here starting in the second half and it is a good business. We feel like we’re doing good as a part of being in that business and it’s profitable for us. And on the ventilator side, we’re starting to see more interest. We’re getting partners and distributors qualified to be able to sell those ventilators and we’re optimistic on that also. As far as the long term in the healthcare, really we’re taking it just really quarter-to-quarter and seeing if it makes sense. We’re doing our part, we believe doing a good thing here of being in those businesses whether it’s long term is still to be decided.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Great. And then as a quick follow-up on the air conditioner side, is that something that you would like be licensing like some intellectual property and trademark and patents on it or is it you would like subcontract it out or actually build it or how should we think about that as it eventually starts to gain some pretty positive reviews given the energy efficiencies and environmental friendliness?

Giovanni John Visentin
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Yeah. Jim, I would say everything is on the table, and we talked about all our innovation even two years ago. We talked about looking at what we would do with it and what would be best to monetize it for Xerox and clean techs, so we’re at the early stage and now we’re focused really on completing a prototype by the end of the year and we’ll be focused on all the scenarios going forward.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Great. Thank you. It’s quite innovative and encouraging. Appreciate it.

Giovanni John Visentin
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you.

Operator: Our next question comes from Katy Huberty with Morgan Stanley.

Katy L. Huberty
Managing Director, Research, Morgan Stanley

Thank you. Good morning. Given the accelerating shift from paper to digital-based processes, can you talk a bit about what percentage of your revenue today comes from digital products and services? And then as you look to increase that mix over time, do you see it more coming from growing the existing offerings or more so looking to launch or acquire more digital services to increase that mix?
William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. The digital services and offerings including the IT services, we haven't quantified those numbers exactly. They are both growing even during this quarter. They grew the IT services, grew from Q1 to Q2. The digital services grew year-over-year. So even a very challenged environment, those both we growing at the appropriate time, in sizing, we'll start quantifying that. But as far as organically, they're growing and we also would look at potential M&A in those areas as we did in Q1, did some of the tuck-in M&As in the UK and in Canada, both did IT services already and we rolled out IT services to our whole XPS portfolio of the companies earlier this year. So, organically and M&A will be involved in that and at the appropriate time, we'll start breaking out and quantifying the exact amounts, but they are a growing piece.

Giovanni John Visentin
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

And Katy, we'll continue to be opportunistic on M&A. And we're going to follow our disciplined approach IRR, ROIC and all others as we look at possibilities, that hasn't changed.

Katy L. Huberty
Managing Director-Research, Morgan Stanley

And then as a follow-up on cash flow, Bill, you mentioned that payables and inventory were a use of cash. What actions can you take and how quickly do you think that reverses in the back half...

William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah, so...

Katy L. Huberty
Managing Director-Research, Morgan Stanley

...in order to get more cash from working capital?

William F. Osbourn Jr.
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. Inventory, we clearly see where it was used here in Q2 that we're managing down those inventory levels during the second half that normally is the case with the company as we get towards the end of the year. But even more so this year we expect the inventory to be more resourced. Payables really was a use of the source with the use because we just were doing less overall purchases anything and we expect that to be also less of the use in the second half.

Katy L. Huberty
Managing Director-Research, Morgan Stanley

Great. Thank you.

Operator: Thank you. And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the call over to John for any closing remarks.
Giovanni John Visentin  
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you. And thank you for your time today. Now this year has challenged us and it's only half over. It challenged assumptions about our business and those of many of our clients. And while there remain questions about the near-term future, we’re confident in our strategy and we’re positioned well to come out of this even stronger.

Today Xerox is better able to serve our clients and deliver modern workplace experience both the employers and employees. Be safe and be well. Thank you again.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation and you may now disconnect.

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