

Xerox Reports First Quarter 2016 Results

First-Quarter Overview

- **EPS:** adjusted¹ EPS of \$0.22/share, GAAP EPS from continuing operations of \$0.03/share
- **Q1 total revenue** of \$4.3 billion; down 4% YOY or 3% CC*
 - **Services:** up 1% YOY or 2% CC*
 - **Document Technology:** down 10% YOY or 9% CC*
 - **Annuity revenue** of \$3.7 billion; down 3% YOY or 2% CC*; 87% of total
 - **Equipment revenue** of \$560 million; down 10% YOY or 9% CC*; 13% of total
- **Operating margin** of 7.2%; down 1.3 pts YOY
- **Segment margins:** Services 7.7%, Technology 10.2%
- **Operating Cash Usage** of \$25 million

Balance Sheet/Cash

- **Operating Cash Usage** of \$25 million
- **CAPEX** of \$72 million
- **Acquisitions** of \$18 million
- **Adj. avg. fully diluted share count²:** 1,021 million
- **Ending fully diluted share count²:** 1,048 million
- **Ending debt** of \$7.4 billion
- **Ending cash balance** of \$1.2 billion

Guidance

- **Maintaining FY Revenue and Adjusted Earnings guidance**
- **GAAP EPS, Cash Flow and Capital Allocation updated to reflect \$200 - \$250 million of separation costs, \$100 million of additional restructuring and \$50 million of separation CAPEX**
- **Revenue: FY 2016 down 2 to 4% CC**
- **EPS:** - **Q2 2016 adjusted¹:** \$0.24 - \$0.26
 - **FY 2016 adjusted¹:** \$1.10 - \$1.20
 - **GAAP (from Continuing Operations):** Q2 2016: \$0.06 - \$0.08; FY 2016: \$0.45 - \$0.55
- **Q2 & FY 2016 adjusted¹ tax rate:** 26% - 28%
- **FY Operating Cash Flow:** \$950M - \$1.2 billion
- **FY CAPEX:** ~\$350 million
- **FY Free Cash Flow:** \$600 - \$850 million
- **FY Dividends:** ~\$350 million
- **FY Acquisitions:** ~\$100 million
- **Debt Repayment:** remainder of Free Cash Flow

Services Segment

- **Q1 revenue** of \$2.5 billion; up 1% YOY or 2% CC*
- **Services 58% of total company revenue**
- **Revenue mix** of 68% BPO, 32% DO
- **Segment margin** 7.7%; up 0.1 pts YOY
 - Government Healthcare drives BPO improvement
- **Year-over-year revenue:**
 - Business Process Outsourcing (BPO) flat or up 1% CC*
 - Document Outsourcing (DO) up 2% or 5% CC*
- **Metrics:**
 - **Signings of \$2.1 billion TCV**
 - Down 11%* YOY and up 9%* TTM
 - New business TCV up 6%* YOY
 - Lower renewal opportunities drive lower total signings
 - **Renewal rate (BPO and DO) of 89%**

Document Technology Segment

- **Q1 revenue** of \$1.6 billion; down 10% YOY or 9% CC*
 - Revenue decline consistent with Q4
 - Annuity revenue down 9% YOY or 7% CC*, 74% of revenue
 - Equipment revenue down 15% YOY or 14% CC, 26% of revenue
- Including DO, printing revenue down 5% CC* in-line with Q4
- **Segment margin** 10.2%; down 2.5 pts YOY
 - Significant Q1 restructuring initiated to mitigate margin pressure
- **Revenue mix** of 19% entry, 57% mid-range, 24% high-end

Installs³

Overall Install Growth

	Color	B&W
High-End ⁴	56%	(8)%
Mid-Range	1%	(14)%
Entry A4 MFDs ⁵	1%	(16)%

- Good growth in High End color driven by Entry Production Color
- Mid-Range impacted by late quarter timing of i-series product launch

* Constant currency (CC)

(1) Adjustments include amortization of intangible assets, restructuring and related costs, non-service retirement related costs and separation costs.

(2) Average shares for the calculation of adjusted EPS for first quarter 2016 exclude 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million is included. Outstanding represents common shares outstanding for the quarter plus potential dilutive common and preferred shares (includes shares associated with our Series A convertible preferred stock).

(3) Installs include Document Technology and Services segments.

(4) High-end installs exclude digital front end sales.

(5) Entry installs exclude OEM sales, including OEM sales Color A4 up 117%, B&W A4 up 11%

Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2016 earnings release posted on our website at <http://www.xerox.com/investor>

