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
 - 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

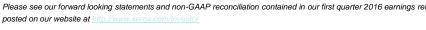
Installs³

Overall Install Growth		
	Color	B&W
High-End⁴	56%	(8)%
Mid-Range	1%	(14)%
Entry A4 MFDs ⁵	1%	(16)%

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

Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2016 earnings release





^{*} 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%