



# Xerox Investor Handout

Xerox Strategy Overview

Quarter 1 2017 Earnings

As of Q2 2017

<http://www.xerox.com/investor>

# Forward Looking Statements

This presentation contains “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will”, “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment and markets and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; the risk that we do not realize all of the expected strategic and financial benefits from the separation and spin-off of our Business Process Outsourcing business; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of our 2016 Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.



# Forward Looking Statements

Fuji Xerox Co., Ltd. (“Fuji Xerox”) is a joint venture between Xerox Corporation and Fujifilm Holdings Corporation (“Fujifilm”) in which Xerox holds a 25% equity interest and Fujifilm holds the remaining equity interest. On April 20, 2017, Fujifilm publicly announced it formed an independent investigation committee to conduct a review of the appropriateness of the accounting practices at Fuji Xerox’s New Zealand subsidiary related to the recovery of receivables associated with certain sales leasing transactions that occurred in, or prior to, Fuji Xerox’s fiscal year ending March 31, 2016. In first quarter 2017, we recognized a charge of approximately \$30 million, which represents our share of the current Fujifilm estimated adjustments from this review, as publicly disclosed by Fujifilm. Fujifilm has publicly stated that it expects the investigation will be completed in May 2017, and that it intends to disclose the results shortly thereafter. Given our status as a minority investor, we have limited contractual and other rights to information and rely on Fuji Xerox and Fujifilm to provide information to us and are not involved in the investigation, including its scope and timing of completion. Although we have no reason not to rely on Fujifilm’s estimated adjustment and we are not aware of any additional amounts related to this matter that would have a material effect on our financial statements, this investigation is ongoing and our future results may include additional adjustments that are materially different from the amount of the charge that we have already recognized in connection with this matter and the period(s) to which the charge relates, and we can provide no assurances relative to the outcome of any governmental investigations or any consequences thereof.

For other related information, please visit the Company’s investor relations website at <https://www.xerox.com/investor>.



# Xerox Investment Proposition

Global Market Leader	Attractive Market Opportunities	Disciplined Operator	Strong Post Sale Driven Cash Flow	Sustainable Shareholder Returns
<p>Strong global brand</p> <p>#1 share in key segments</p>	<p>Positioned for growth in MDS, SMB, A4 and High-End color</p> <p>Largest ever product launch in 2017, supporting channel expansion</p>	<p>Consistent, double digit operating margins<sup>1</sup></p> <p>\$1.5B+ strategic transformation underway</p>	<p>Post Sale &gt;75% of revenue</p> <p>Strong free cash flow (FCF)<sup>1</sup></p> <p>Capital-light business model</p>	<p>Investment grade credit profile</p> <p>Target &gt;50% of FCF<sup>1</sup> returned through dividends and share repurchase over time</p>

Value creation driven by strong underlying cash flow generation, margin expansion and improving longer-term revenue trajectory

# Global Leader with a Strong, Diverse Business Profile

## Financial Profile

**\$10.8B**  
Revenue

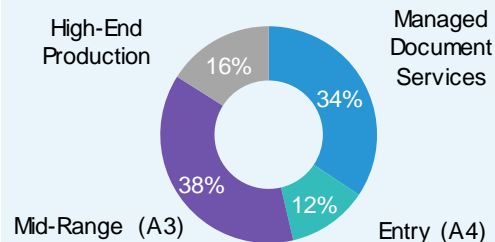
**12.5%**  
Operating Margin<sup>1</sup>

**\$1,018M**  
Operating Cash Flow from  
Continuing Operations

## Post Sale Driven Model

**>75%**  
of revenue post sale driven

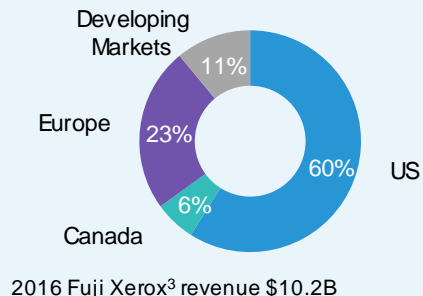
## Offering Mix<sup>2</sup>



## Strategic Growth Mix

**38%**  
Strategic Growth Areas

## Geographic Mix



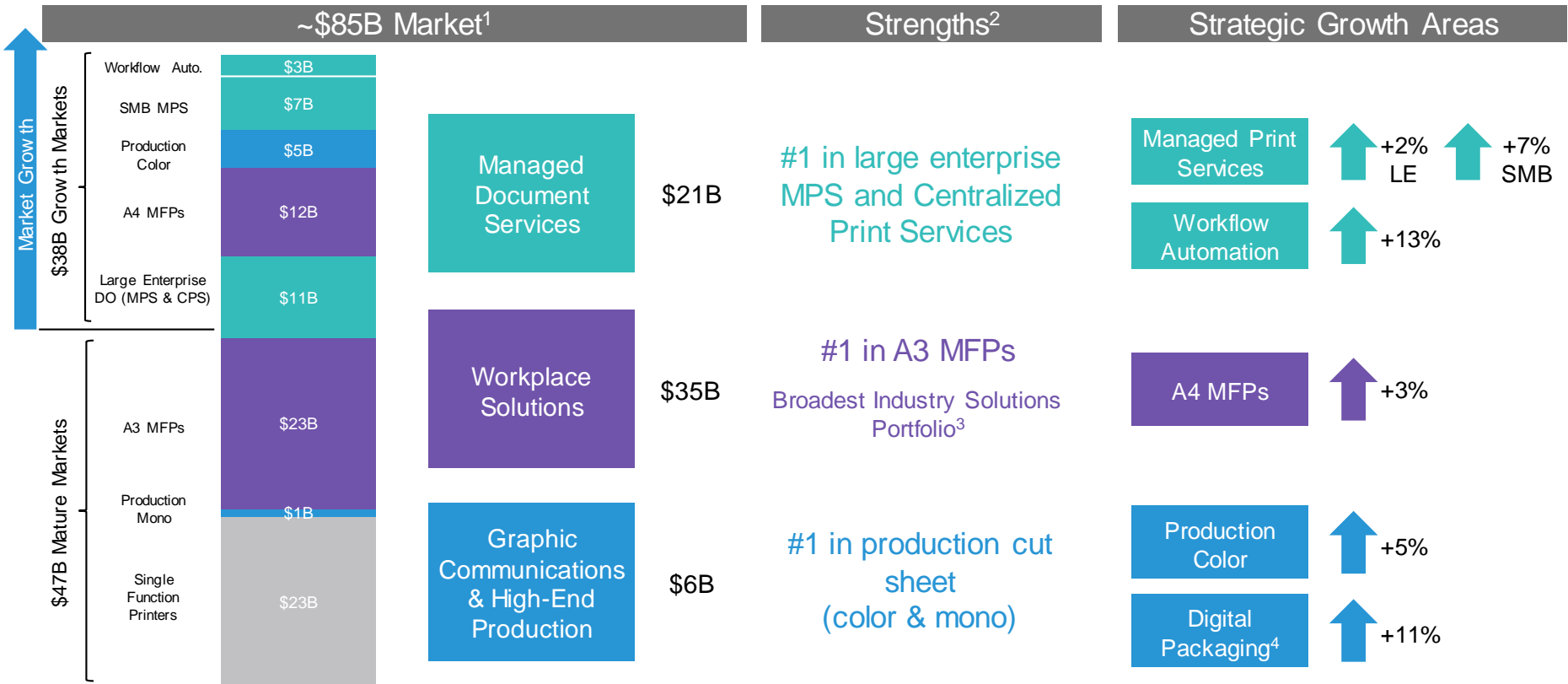
Note: all figures represent 2016 results

<sup>1</sup> Operating Margin: see Non-GAAP Financial Measures.

<sup>2</sup> Excludes Other revenue.

<sup>3</sup> Fuji Xerox operates in Japan, China, Australia, New Zealand, Vietnam and other areas of the Pacific Rim.

# Leading Positions in Large Markets with Growth Opportunities



<sup>1</sup> Estimated 2016 total market size excluding Fuji Xerox territories. Source: IDC and Xerox internal analysis.

<sup>2</sup> A3 MFP and Production positioning based on equipment revenue market share.

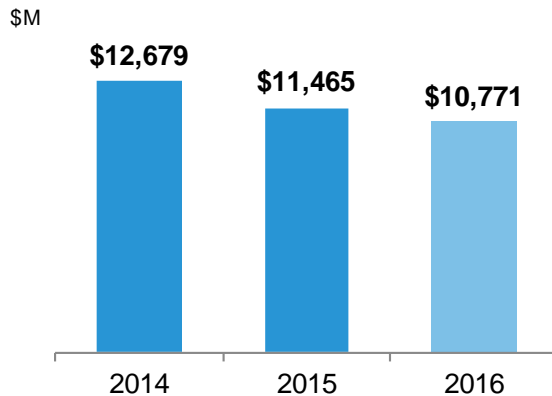
<sup>3</sup> As recognized by Buyers Laboratory in 2014, 2015 and 2016.

<sup>4</sup> Digital packaging is a \$0.6B market that is a subset of Production Color.

Note: CAGRs reflect 2016E – 2019E growth. SMB = Small & Medium Business; DO = Document Outsourcing; MFP = Multifunction Printer; MPS = Managed Print Services; LE = Large Enterprise; CPS = Centralized Print Services

# Historical Performance

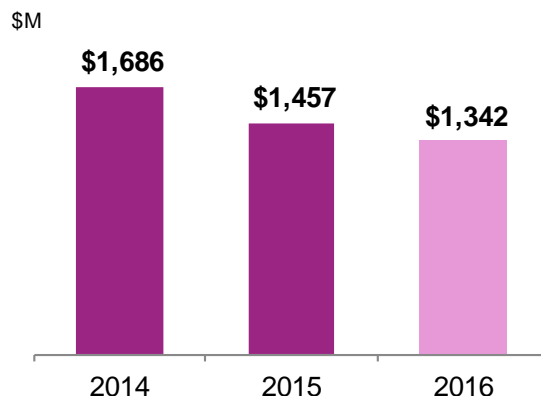
## Revenue



### % Y-o-Y Decline at CC<sup>1</sup>

Year	% Y-o-Y Decline at CC <sup>1</sup>	Translation Currency
2014	(3.9%)	0 pts
2015	(4.6%)	(5) pts
2016	(4.3%)	(2) pts

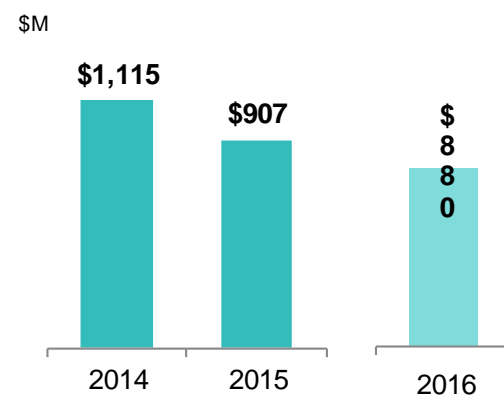
## Adjusted<sup>1</sup> Operating Profit



### % Adjusted<sup>1</sup> Operating Margin

Year	% Adjusted <sup>1</sup> Operating Margin	Transaction Currency
2014	13.3%	1.1 pts
2015	12.7%	(0.1) pts
2016	12.5%	(0.5) pts

## Free Cash Flow<sup>1</sup>



### Free Cash Flow<sup>1</sup> % Net Income

Year	Free Cash Flow <sup>1</sup> % Net Income
2014	113%
2015	110%
2016	143%

# 2017 Full-Year Guidance

Revenue: down mid-single digits CC<sup>2</sup>

Operating Margin<sup>2</sup>: 12.5 -13.5%

Adjusted<sup>2</sup> Tax Rate: 25 – 28%

EPS<sup>1</sup>:

- GAAP \$0.44 - \$0.52
- Adjusted<sup>2,3</sup> \$0.80 - \$0.88

Cash Flow from Continuing Ops:

- Operating Cash Flow ~\$700M - \$900M
- Free Cash Flow<sup>2</sup> ~\$525M - \$725M

## Revenue assumptions

- At recent exchange rates, translation currency an ~(-2) pt impact

## Operating Margin assumptions

- Strategic Transformation gross savings of \$600M
- Negative transaction currency

## Operating Cash Flow guidance includes

- ~\$350M of Pension contributions
- ~\$215M of Restructuring payments

## Capital Deployment Plans

- ~\$1.3B of debt reduction (complete)
- ~\$280M dividend payments
- ~\$175M of CAPEX
- ~\$100M of M&A
- Unallocated: \$100 - \$300M (debt repayment, M&A and pension contributions)
- No planned share repurchases in 2017

<sup>1</sup> EPS from Continuing Operations

<sup>2</sup> Constant Currency (CC), Operating Margin, Adjusted EPS, Adjusted Tax Rate and Free Cash Flow: see Non-GAAP Financial Measures

<sup>3</sup> Adjusted EPS to GAAP EPS differences include non-service retirement related costs, restructuring and related costs, amortization of intangibles, other discrete, unusual or infrequent items





# Clear Path to Achieving Transformation Program

## Sources of Productivity and Cost Savings

### Delivery

- MPS delivery
- Technical service
- Remote connectivity

### Cost of Production

- Manufacturing
- RD&E and design efficiency

### Sales & Contracting

- Sales productivity
- Pricing tools
- Real estate

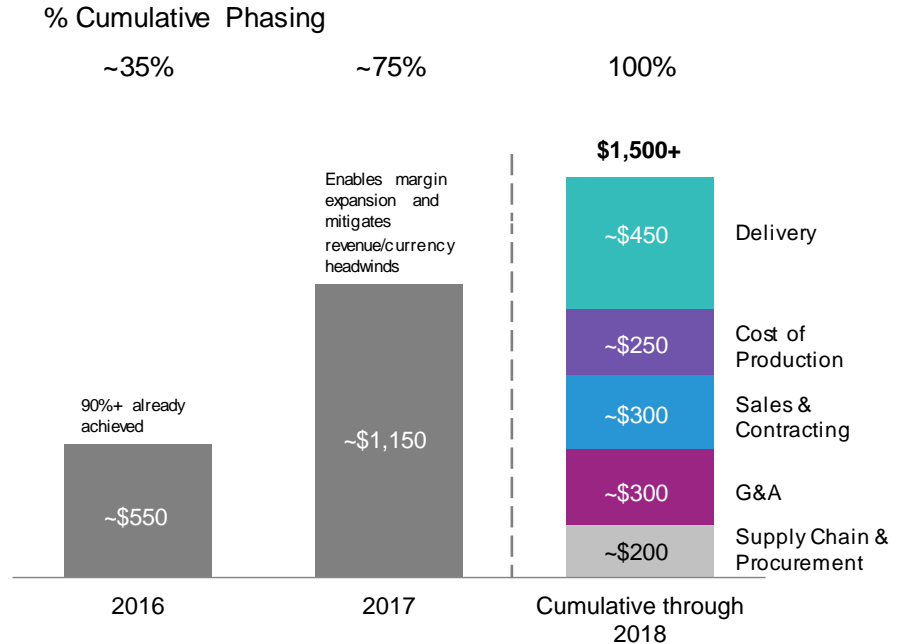
### G&A

- IT
- Finance
- Management structure
- Facilities

### Supply Chain & Procurement

- Integrated supply chain
- Procurement

## Cumulative Gross Productivity & Cost Savings (\$M)



Full transformation benefits recognized in 2018 and beyond, as productivity continues and flow through of new product introductions are realized

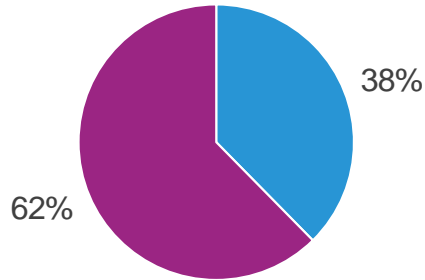
# Strategy to Improve Revenue Trajectory

<p>Managed Document Services</p> 	<p>Managed Print Services</p>	<p>Gain share in SMB through channel partner recruitment Increase dedicated new logo sales coverage</p>
	<p>Workflow Automation</p>	<p>Invest in professional services offering and grow managed workflow solutions (i.e., industries and horizontals)</p>
<p>Workplace Solutions</p> 	<p>A4 MFPs</p>	<p>Increase share with strengthened product portfolio and expanded distribution capacity</p>
<p>Graphic Communications &amp; High-End Production</p> 	<p>Production Color</p>	<p>Build upon leadership in color cut sheet while investing to capture growth in inkjet</p>
	<p>Digital Packaging</p>	<p>Bring extensive digital print &amp; workflow expertise to the market</p>

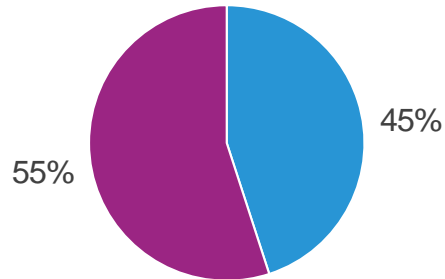
# Shifting Revenue Mix Towards Growth

## Xerox 2016 Revenue Mix

Up 2% CC<sup>1</sup>, mix shift of 2 pts YOY



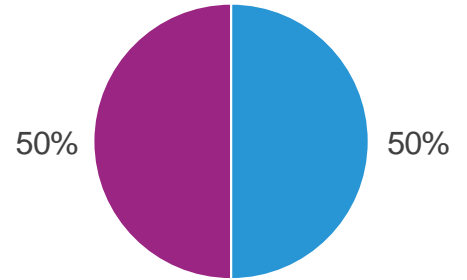
## Overall Market



## Strategic Growth Areas



## Xerox 2020 Revenue Mix



Improves revenue mix ~3 points each year

■ Mature Markets ■ Growth Markets



# Future Performance Expectations

	2017	2018	2019+
Revenue Trajectory (at CC <sup>1</sup> )	Down mid-single digits at constant currency	Improves driven by new products & Strategic Growth Areas acceleration	Sustained improvement driven by new products and Strategic Growth Areas
Adjusted <sup>1</sup> Operating Margin	12.5 – 13.5%	Continued strong and expanding	
Operating Cash Flow	\$700 - \$900M Operating Cash Flow from Continuing Operations	Return to normalized operating cash flow of \$900M+ by 2019	

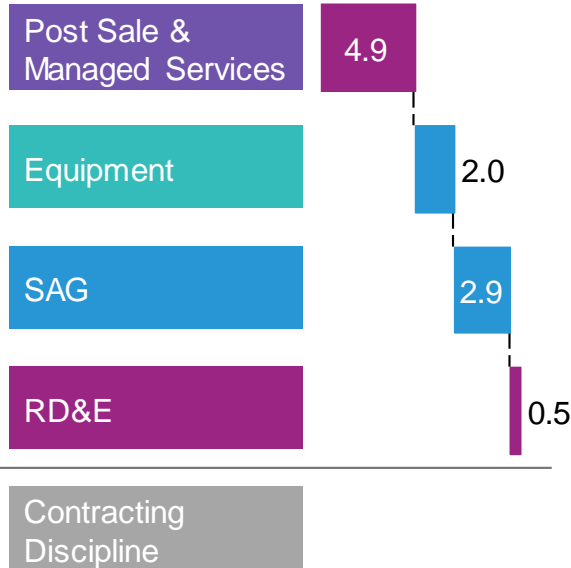


# Strategic Transformation Program Details



# Strategic Transformation Will Drive Profit Growth

~\$10B Addressable Cost Base



Key Productivity Levers

Delivery (~\$450M)

Cost of Production (~\$250M)

G&A (~\$300M)

Supply Chain & Procurement (~\$200M)

Sales & Contracting (~\$300M)

Examples of Initiatives

Consolidating MPS delivery and Technical Service under one organizational structure

Capturing supplier productivity and reducing manufacturing footprint

Reducing complexity / 30% reduction in management layers

Integrating supply chain under one global function

Introducing new pricing optimization tools

\$1.5B+ cumulative gross productivity by 2018

# We Are Off To a Fast Start

## Objective

## Actions to Transform Our Business

### Supply Chain & Procurement

Improve **supply chain efficiency** and reduce **procurement spend**

- Outsourcing consumables distribution to third party
- Combining equipment and parts warehouses
- Benchmarking supplier capabilities, competitiveness and re-bidding/re-contracting major spend categories

### Sales & Back Office

**De-layer** organization and **streamline** back-office support

- Shifting primary organizational axis to geography (North America, International)
  - Maintaining local customer focus while reducing matrix management
- Optimizing sales incentives and performance management
- Consolidating back-office support functions
- Rationalizing real estate portfolio

### Delivery

**Improve** Field Service and Managed Print Services **delivery and productivity**

- Workflow automation to increase remote solve rates
- Optimizing field resource footprint and tools to ensure more productive on-site dispatches
- Leveraging existing near/right-shoring initiatives

# Strategic Growth Planks



Strengthening our Workplace  
Solutions Portfolio



Increasing Participation in SMB and  
the Mid-Market



Growing in Graphic Communications  
and High-End Production




Expanding Market Leadership in  
Managed Document Services




# Strengthening Xerox's Workplace Solutions Portfolio

A3 Multifunction Printers		
Market Opportunity	Market Growth	Xerox Share
\$23B maturing market	-5% CAGR '16-19	22% rank # 1

A4 Multifunction Printers		
Market Opportunity	Market Growth	Xerox Share
\$12B growing market	+3% CAGR '16-19	6% rank # 9

 Defend and expand our leadership

 Gain share in the areas of market growth

## Competitive Differentiators

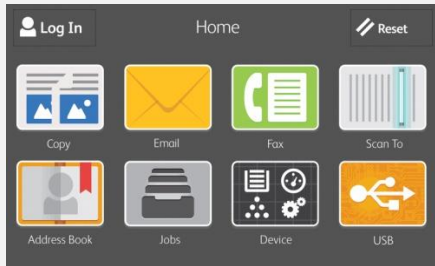
 Platform Driven Portfolio & MPS Ready Technology
  Newly enabled Vertical Solutions and Applications
  Benchmark Cost Competitiveness
  Channel-ready platform and expanding SMB reach



# Xerox Connected Office for The Intelligent Workplace

One family of products and solutions

Largest launch in Xerox history in 2017



Differentiated Xerox Workplace Solutions Portfolio	
Mobility	MPS ready
Tablet-like interface	Secure Workflow
Unified platform	Improved cost structure



29 new products  
Xerox® ConnectKey® Technology



Industry's largest solutions enabled portfolio with consistent user experience from the simplest A4 device to the most robust A3 MFP



Aggressive focus on expanded routes to market with robust portfolio

# Increasing Participation in SMB and the Mid-Market

SMB Office Market Size and Growth			
Non-Services	Basic Print Services	Managed Print Services	A4*
\$34B ↓(9)%	\$10B ↑7%	\$7B ↑7%	\$12B ↑3%

\*A4 is total market including SMB and Large Enterprise



Recruit & activate to grow our footprint in multi-brand dealer channel among the 750 large dealers WW



Acquire and integrate multi-brand channel via Global Imaging Systems and European Channels



Become preferred channel partner through investment in talent, infrastructure and partner programs



SMB-focused portfolio and MPS support and demand generation



Tremendous opportunity to more aggressively target the **\$20B** worldwide multi-brand dealer market



# Growing in Graphic Communications & High-End Production Color

## Well Positioned for Leadership and Growth

Color Market Opportunity	Color Market Growth	Xerox Color Share
\$5B	+5% CAGR '16-19	29% rank # 1 in color documents

## Capitalize on the Color Digital market growth opportunity

**Conversion to digital:** only 3% of 50 trillion pages are digital; conversion and inkjet technology drive color digital market growth

**Color CF Inkjet:** attractive with a \$1.7B market and 10% CAGR

## Target Areas for Growth

### Leading in color cut sheet

- **Continuous innovation:** xerographic and inkjet technologies
- **Award-winning color cut sheet:** expanded portfolio with 5 new products in 2017



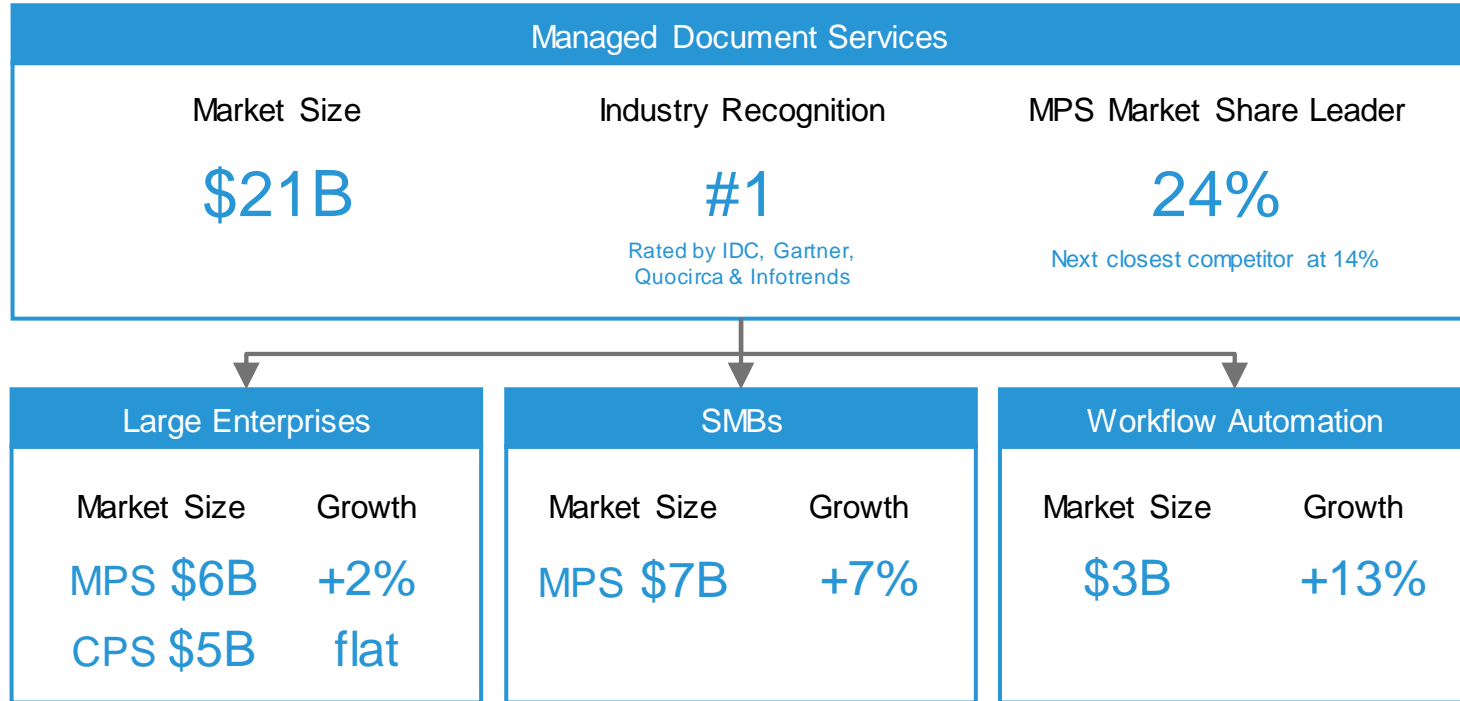
### Capture new markets

- **CF inkjet:** capture higher value page migration
- **Expanded capabilities:** through extensions to Rialto and Trivor in 2017
- **Digital packaging:** bring our digital know-how to the market growing at +11% CAGR



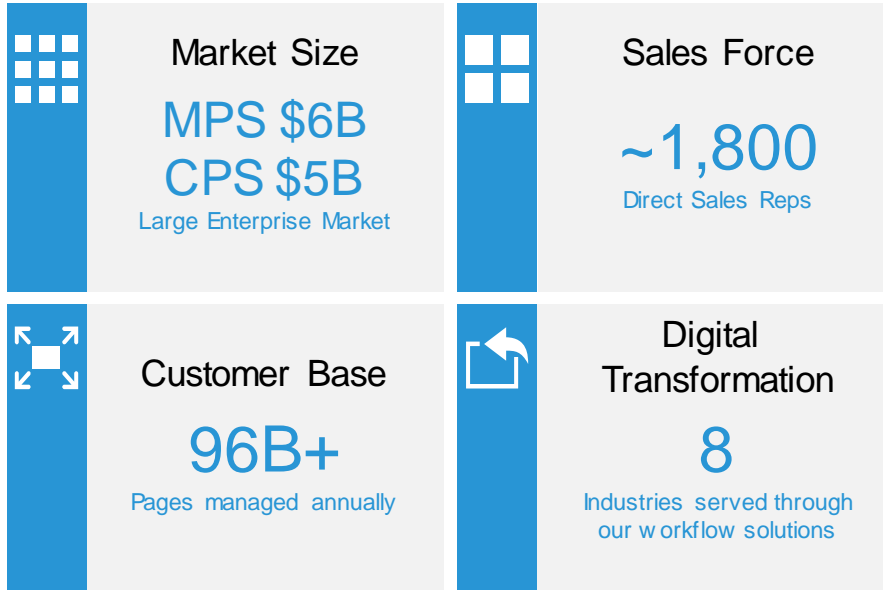
# Expanding Market Leadership in Managed Document Services

## Market Opportunity



# Strengthening Leadership in Large Enterprise MPS and CPS

## Opportunity

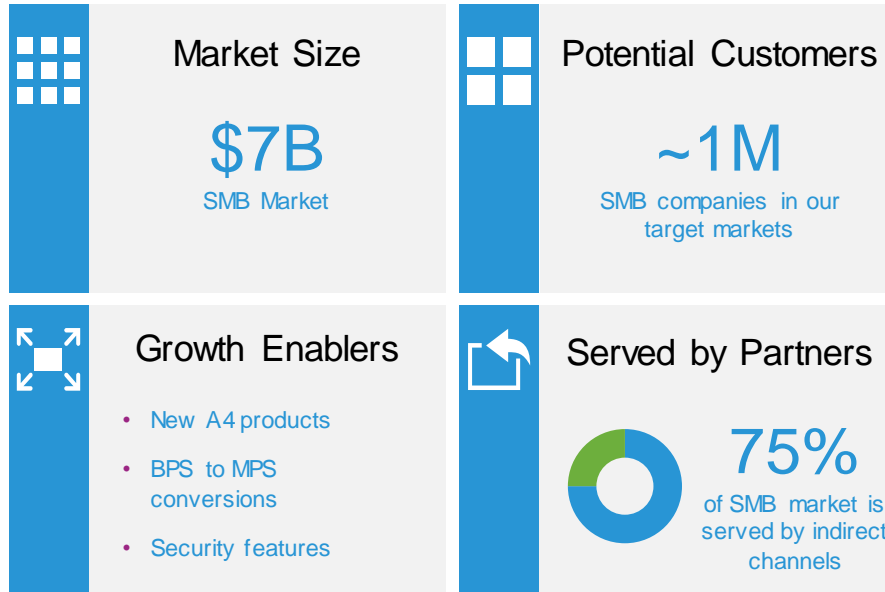


## Capturing Large Enterprise Growth

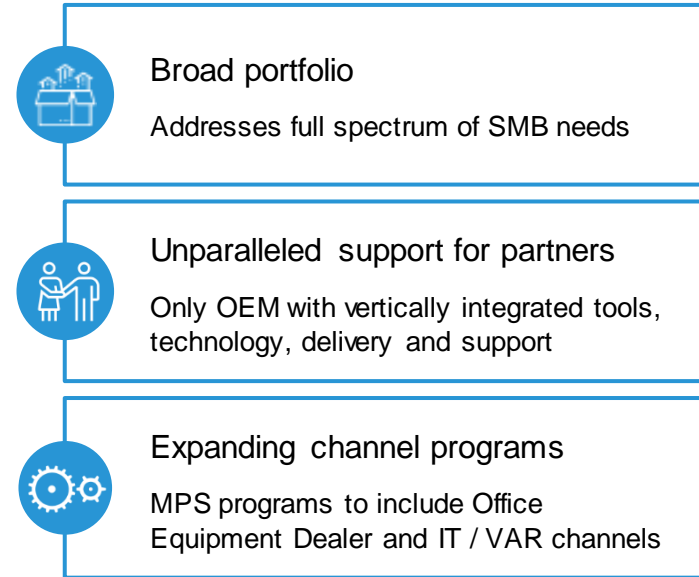
- Clear leader in large enterprise with differentiated solutions and unmatched global delivery capabilities
- Best-in-class sales management process and tools with sales coverage aligned by industry
- Building our professional services capabilities, with over 100 dedicated consultants
- Investing in dedicated new business sales coverage

# Channel Partners will Drive Xerox Growth in SMB MPS Market

## Delivering Growth, Creating Value



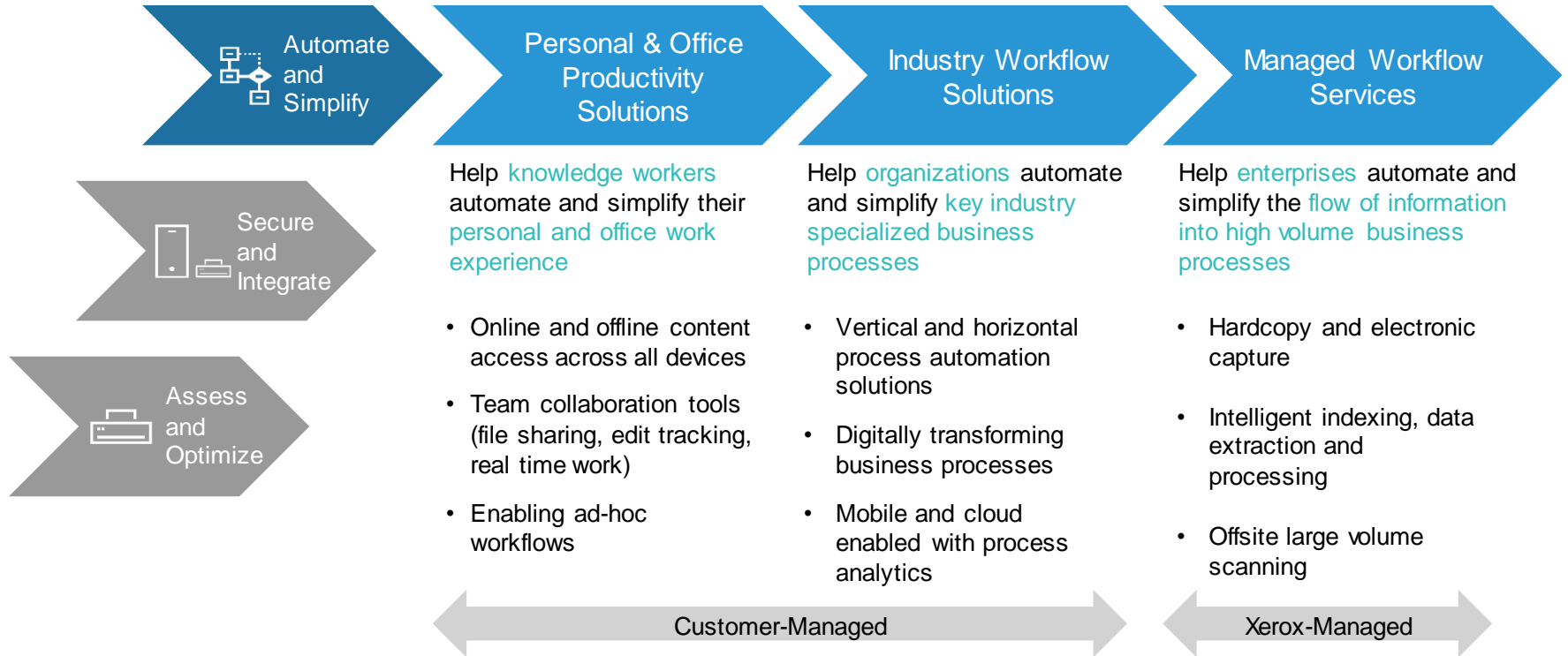
## Differentiated Service Offerings



Source: IDC and Internal Xerox estimates for 2016

# Broad Range of Workflow Solutions

Workflow Automation is a \$3B market expected to grow at 13% annually





Additional  
Financial  
Information



# Strong Post Sale Driven Business Model

## Revenue

>75% Post Sale;  
predictable, recurring revenue

- **Signings and install growth** drive MIF and market share
- Historic 5% equipment **price declines comprehended/offset by productivity**
- **Page volumes** – stable decline
- **Increasing** portion of revenues in **Strategic Growth Areas** will improve revenue trajectory
- **Majority of supplies revenue in bundled contracts**

## Profitability

Operating Margin<sup>1</sup> 12%+  
for past 3 years

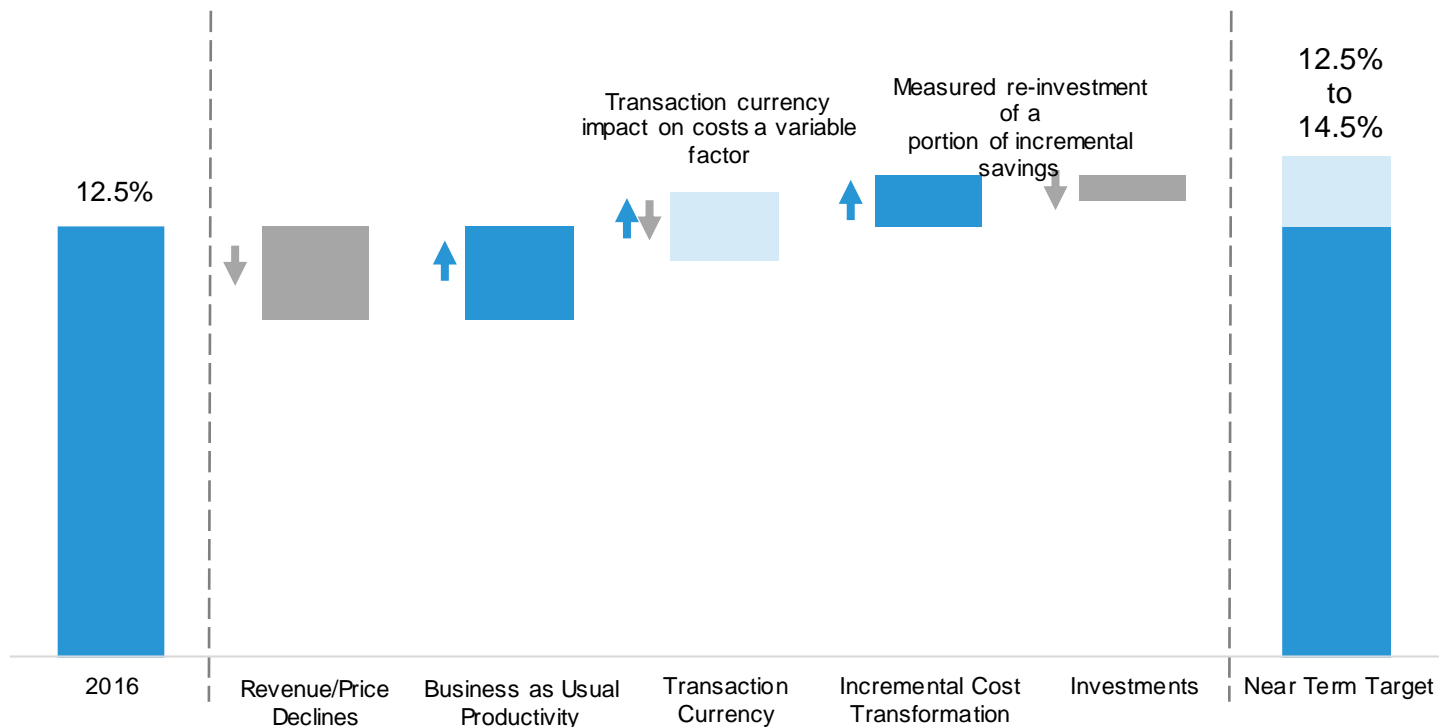
- 3-year Strategic Transformation program to deliver **\$1.5B+ in gross productivity savings**, supports:
  - Margin expansion
  - Modest growth investments
- **Post Sale streams drive margin**; equipment margin positive (outside Entry products)
- **Transaction currency** driven primarily by Yen/Euro/USD

## Cash Flow

High visibility to  
Free Cash Flow<sup>1</sup>

- **Strong, stable post sale** revenue drives cash flow
- **Strategic Transformation and modest growth investments** drive improved profitability and cash flow
- **Capital-light business model** – CAPEX less than 2% revenue
- **Restructuring and pension** impacts moderate over time

# Strategic Transformation Enables Operating Margin<sup>1</sup> Expansion

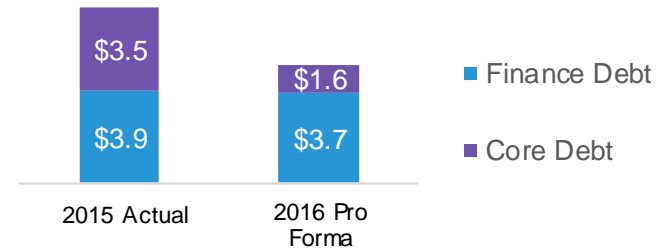


# Investment Grade Capital Structure

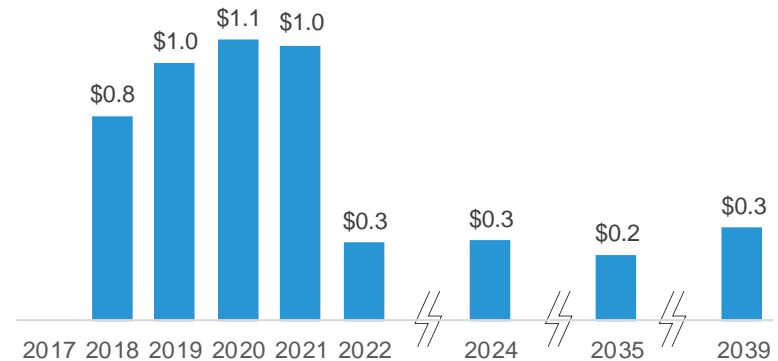
## Investment Grade Profile

- Manage balance sheet to maintain an investment grade profile; optimal for business model which includes customer financing
  - Majority of pro forma debt supports customer finance assets (at 7:1 leverage)
  - Manageable schedule of debt maturities well matched to financing contract lengths
  - Core leverage managed to maintain investment grade rating; incremental debt repayment planned
- Maintain a substantial liquidity position
- Generate significant free cash flow<sup>1</sup> in support of capital deployment objectives

## Illustrative Debt<sup>2</sup> (\$B)



## Debt Maturity Ladder (\$B)



# Attractive Captive Financing Business

## Finance Assets and Debt

Maintain 7:1 debt to equity leverage ratio on our finance assets

Quarter-End March 31, 2017

(in billions)	Fin. Assets	Debt	Cash
Financing	\$ 4.2	\$ 3.7	
Core	—	<u>1.3</u>	
Total Xerox	\$ 4.2	\$ 5.0	\$ 1.0

## Customer Financing is a Business Strength

- Differentiates and enhances Xerox's value proposition
- Facilitates customer acquisition of Xerox technology
- Generates profitable revenue
- Enables control of assets
- Focuses on disciplined credit processes to ensure low bad debt (<2% of finance receivables)
- Creates diverse customer, industry and geographic mix through global reach and broad product portfolio



# Strong and Sustainable Cash Flow Generation

## Illustrative Cash Flow (\$M)

(based on 2015)

<b>Pre-tax Income</b>	<b>\$924</b>
Non-Cash Add-backs <sup>1</sup>	540
Restructuring Payments	(79)
Pension Payments	(301)
Working Capital, net <sup>2</sup>	(95)
Change in Finance Assets <sup>3</sup>	33
Other <sup>4</sup>	33
<b>Operating Cash Flow (OCF)</b>	<b>\$1,055</b>
(-) CAPEX <sup>5</sup>	148
<b>Free Cash Flow (FCF)<sup>6</sup></b>	<b>\$907</b>

## Cash Flow Drivers

- Profit expansion over time from margin expansion and improving revenue trajectory
- Transformation efficiencies provide modest benefit to working capital
- Near-term restructuring payments higher to facilitate strategic transformation / normalize after 2018
- Pension contributions moderate after 2018
- Separation payments substantially complete in 2017
- Finance assets a modest source of cash
- CAPEX<sup>5</sup> less than 2% of revenue

Track record of strong cash generation driven by post sale business model

<sup>1</sup> Non-Cash Add-backs include depreciation & amortization excluding equipment on operating lease, provisions, stock-based compensation, pension expense, restructuring charges and gain on sales of businesses and assets.

<sup>2</sup> Working Capital, net includes accounts receivable, collections of deferred proceeds from sales of receivables, accrued compensation and accounts payable and inventory.

<sup>3</sup> Includes equipment on operating leases and its related depreciation, finance receivables and collections on beneficial interest from sales of finance receivables.

<sup>4</sup> Includes other current and long-term assets and liabilities, derivative assets and liabilities, other operating, net and taxes.

<sup>5</sup> Capital Expenditures including Internal Use Software.

<sup>6</sup> Free Cash Flow: see Non-GAAP Financial Measures.

# Capital Allocation Priorities

We will apply a disciplined return on investment approach when deploying our cash flow

## Leverage

Committed to maintaining investment grade credit rating

## Targeted Investments

Continue capital-light business model with targeted CAPEX<sup>1</sup> (less than 2% of revenue)

Selectively pursue M&A in targeted growth areas to improve portfolio mix and drive profit expansion

## Return of Capital

Initial dividend of \$0.25 per share on an annualized basis

Modest share repurchase (after 2017) based on relative returns evaluation

Target >50% of Free Cash Flow<sup>2</sup> returned through dividends and share repurchases over time



# Xerox Dividend Policy

Xerox has a track record of attractive and increasing dividends

- 16% CAGR over last 4 years



Post-split dividend of 6.25 cents per share (\$0.25 annualized) is anticipated beginning with the dividend payable April 2017



Expect future dividend increases driven by EPS and free cash flow<sup>1</sup> growth



Committed to a strong dividend policy supported by our annuity driven cash flow







# First Quarter 2017 Earnings

Jeff Jacobson, CEO  
Bill Osbourn, CFO

April 25, 2017  
<http://www.xerox.com/investor>

# First-Quarter Overview

Positive beginning for Xerox post separation

- Revenue in-line with full-year expectations
- Operating margin year-over-year expansion continues
- Good operating cash flow

## Revenue

\$2.45B, down 6.2% or 4.3% CC<sup>1</sup>

Equipment down 7.4% or 5.7% CC<sup>1</sup>

Post Sale down 5.8% or 3.9% CC<sup>1</sup>

## Profitability

Adj<sup>1</sup> operating margin: 11.4%, up 90 bps YOY

GAAP EPS<sup>2</sup>: 2 cents, down 4 cents YOY

Adj<sup>1</sup> EPS: 15 cents, down 3 cents YOY

*Memo: EPS measures include negative 3 cent impact from Fuji Xerox out-of-period receivables charge*

## Cash and Debt

Operating cash flow from continuing operations: \$190M, up \$103M YOY

Ending Cash: \$1.0B

Debt: reduced by \$1.3B

34 <sup>1</sup> Constant Currency (CC), Adjusted Operating Margin and Adjusted EPS: see Non-GAAP Financial Measures

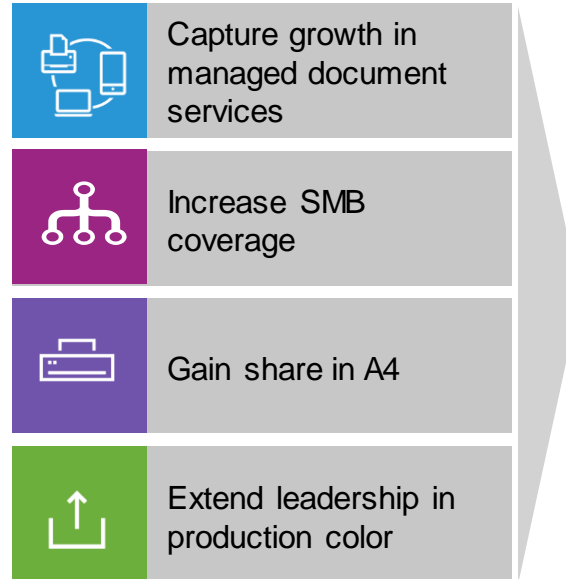
<sup>2</sup> GAAP EPS from Continuing Operations

# First-Quarter Highlights

## Continued Progress on Strategic Transformation

- Delivery
- Cost of Production
- Sales & Contracting
- G&A
- Supply Chain & Procurement

## Targeting Strategic Growth Areas



- Announced largest product launch in company history; differentiated ConnectKey portfolio and apps for customers and channel partners
- Launched Versant; refreshed competitive offering within production color

# Financial Performance

(in millions, except per share data)

<b>P&amp;L Measures</b>	<b>Q1 2017</b>	<b>B/(W) YOY</b>
Revenue	\$ 2,454	\$ (161)
Operating Income – Adjusted <sup>1</sup>	280	6
Equity Income	16	(21)
Other Expenses, net – Adjusted <sup>1</sup>	41	4
Net Income	22	(47)
Net Income – Adjusted <sup>1</sup>	154	(32)
GAAP EPS <sup>2</sup>	0.02	(0.04)
EPS – Adjusted <sup>1</sup>	0.15	(0.03)
<i>Memo:</i>		
Equity Income – Adjusted <sup>1</sup> (excludes Fuji Xerox charge)	46	9

<b>P&amp;L Ratios (Adjusted<sup>1</sup>)</b>	<b>Q1 2017</b>	<b>B/(W) YOY</b>
Gross Margin	39.8%	0.2 pts
RD&E %	4.5%	- pts
SAG %	25.8%	0.2 pts
Operating Income Margin	11.4%	0.9 pts
Tax Rate	27.5%	(6.1) pts

<sup>36</sup> <sup>1</sup> Adjusted Measures: see Non-GAAP Financial Measures

<sup>2</sup> GAAP EPS from Continuing Operations

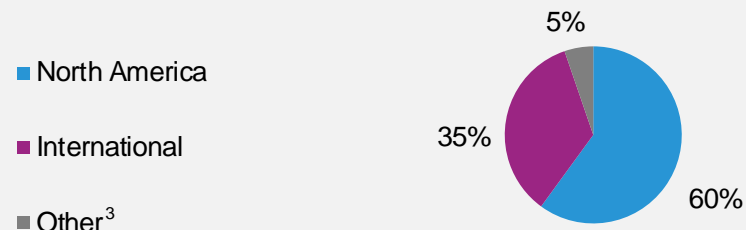


# Revenue Performance

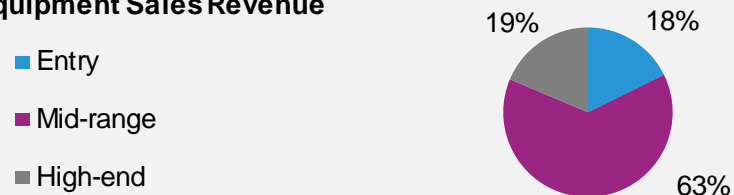
(in millions)

	Q1 2017	YOY Change	
		AC	CC <sup>1</sup>
<b>Total Revenue</b>	<b>\$ 2,454</b>	<b>(6.2)%</b>	<b>(4.3)%</b>
North America	1,473	(4.5)%	(4.8)%
International	852	(7.3)%	(1.5)%
Other	129	(16.2)%	(16.2)%
<b>Equipment Revenue</b>	<b>\$ 502</b>	<b>(7.4)%</b>	<b>(5.7)%</b>
Entry	88	(6.4)%	(5.5)%
Mid-range	317	(8.6)%	(7.0)%
High-end	93	(6.1)%	(3.7)%
Other	4	N/M	N/M
<b>Managed Document Services<sup>2</sup></b>	<b>\$ 819</b>	<b>(2.0)%</b>	<b>0.4%</b>

## Total Revenue by Geographic Sales Channel



## Equipment Sales Revenue



**Managed Document Services<sup>2</sup>: 33% of Total Revenue**

<sup>1</sup> Constant Currency (CC): see Non-GAAP Financial Measures

<sup>2</sup> Managed Document Services (MDS) includes Managed Print Services (MPS) (including Global Imaging Systems MPS), Centralized Print Services (CPS) and Workflow Automation and excludes Communication and Marketing Solutions (CMS)

<sup>3</sup> Other total revenue includes OEM business, sales to Fuji Xerox and licensing

# Key Performance Metrics

## Strategic Growth Areas

### Offering Focus Areas



MPS & Workflow Automation



A4 MFPs



Production Color

### First Quarter 2017 Results

↑ 1%

YOY revenue growth at CC<sup>1</sup>

39%

% of Revenue in Strategic Growth Areas

↑ 2 pts

Mix shift YOY

## Installs

### First Quarter 2017

(% change YOY)	Color	B&W
Entry A4 MFDs <sup>3</sup>	15%	1%
Mid-Range <sup>3</sup>	-%	(24)%
High-End <sup>3</sup>	(15)%	(25)%

## Signings

### % Growth CC<sup>1</sup>

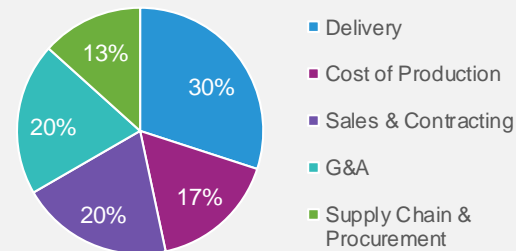
	Q1	YOY	TTM
Enterprise MDS <sup>4</sup>	\$0.5B	(6)%	(5)%

Note: signings do not include GIS or Xerox Partner Print Services results

## Strategic Transformation

2016 FY Gross Savings <sup>2</sup>	\$550M
2017 Target	\$600M
Cumulative thru 2018 Target	\$1.5B+
Q1 Restructuring	\$120M
FY Restructuring Target	\$225M

### Sources of Productivity



<sup>1</sup> Constant Currency (CC): see Non-GAAP Financial Measures

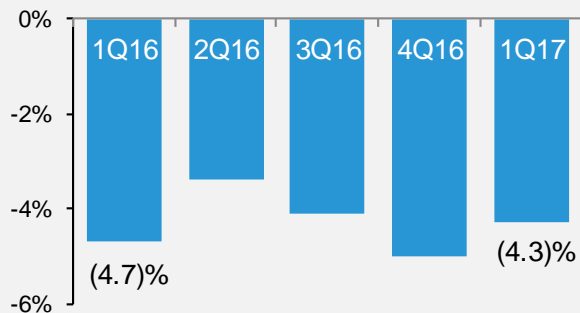
<sup>2</sup> Gross savings are the year over year savings, assuming similar operating levels

<sup>3</sup> Entry installations exclude OEM sales; Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales

<sup>4</sup> Managed Document Services (MDS) includes Managed Print Services (MPS) (including Global Imaging Systems MPS), Centralized Print Services (CPS) and Workflow Automation and excludes Communication and Marketing Solutions (CMS)

# Performance Trends

## Revenue (CC<sup>1</sup>)



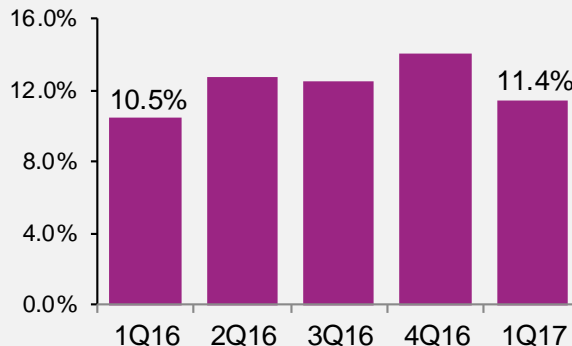
### YOY change at CC<sup>1</sup>

(4.7)% (3.4)% (4.1)% (5.0)% (4.3)%

### Translation Currency

(2.1) pts (1.2) pts (1.5) pts (2.2) pts (1.9) pts

## Adjusted<sup>1</sup> Operating Margin



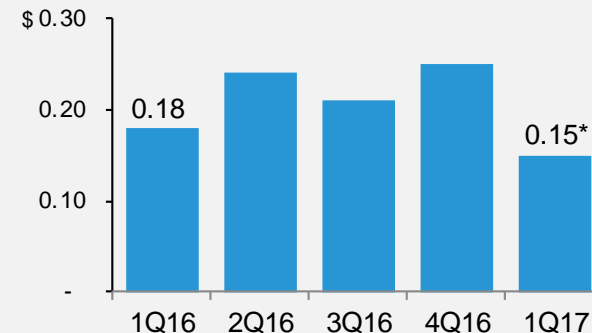
### Adjusted<sup>1</sup> Operating Margin

10.5% 12.7% 12.5% 14.0% 11.4%

### Transaction Currency

(0.9) pts (0.3) pts (0.2) pts (0.7) pts (1.1) pts

## Adjusted<sup>1</sup> EPS



	1Q16	2Q16	3Q16	4Q16	1Q17
Adj <sup>1</sup>	\$0.18	\$0.24	\$0.21	\$0.25	\$0.15*
GAAP <sup>2</sup>	\$0.06	\$0.18	\$0.16	\$0.17	\$0.02*

### Total Currency

\$(0.02) - \$0.01 \$(0.02) \$(0.02)

\*1Q17 EPS includes negative 3 cent impact from Fuji Xerox charge



<sup>1</sup> Constant Currency (CC), Adjusted Operating Margin and Adjusted EPS: see Non-GAAP Financial Measures

<sup>2</sup> GAAP EPS from Continuing Operations

# Cash Flow

First quarter cash flow from continuing operations of \$190M, up \$103M YOY

2017 operating cash flow expected to be \$200M+ below normalized level of ~\$1B driven by restructuring and pension

- Restructuring - \$60M in Q1, expect \$215M FY
- Pension contributions - \$23M in Q1, expect \$350M FY

Working Capital<sup>2</sup> timing drives YOY increase

Capex<sup>5</sup> of \$26M in Q1

Cash used in Financing reflects payments on senior notes

(in millions)	Q1 2017	Q1 2016
Pre-tax Income from Continuing Ops	\$ (16)	\$ 32
Non-cash add-backs <sup>1</sup>	269	225
Restructuring payments	(60)	(21)
Pension Contributions	(23)	(34)
Working Capital, net <sup>2</sup>	(66)	(165)
Change in Finance Assets <sup>3</sup>	86	80
Other <sup>4</sup>	-	(30)
<b>Cash from Operations - Continuing Ops</b>	<b>\$ 190</b>	<b>\$ 87</b>
<b>Cash used in Investing - Continuing Ops</b>	<b>\$ (35)</b>	<b>\$ (30)</b>
<b>Cash used in Financing</b>	<b>\$ (1,258)</b>	<b>\$ (42)</b>
<b>Memo: Free Cash Flow<sup>6</sup></b>	<b>\$ 164</b>	<b>\$ 55</b>

<sup>1</sup> Non-Cash Add-backs include depreciation & amortization excluding equipment on operating lease, provisions, stock-based compensation, defined benefit pension expense, restructuring charges and gain on sales of businesses and assets

<sup>2</sup> Working Capital, net includes accounts receivable, collections of deferred proceeds from sales of receivables, accounts payable and accrued compensation and inventory

<sup>3</sup> Includes equipment on operating leases and its related depreciation, finance receivables and collections on beneficial interest from sales of finance receivables

<sup>4</sup> Includes other current and long-term assets and liabilities, derivative assets and liabilities, other operating, net, distributions from net income of unconsolidated affiliates and taxes

<sup>5</sup> CAPEX including Internal Use Software

<sup>6</sup> Free Cash Flow: see Non-GAAP Financial Measures



# Capital Structure

Good progress optimizing capital structure post separation

- Reduced debt \$1.3B
- Extended term of \$300M of debt due 2018 through 2020 to 2022

Core debt level managed to maintain investment grade financial profile

>70% of Xerox debt supports finance assets

## Customer Financing and Debt

- Customer value proposition includes leasing of Xerox equipment
- Maintain 7:1 debt to equity leverage ratio on these finance assets

Quarter-End March 31, 2017

(in billions)	Fin. Assets	Debt	Cash
Financing	\$ 4.2	\$ 3.7	
Core	—	<u>1.3</u>	
Total Xerox	\$ 4.2	\$ 5.0	\$ 1.0

# Summary

**First quarter operational results in line with expectations**

**Focused on delivering 2017 commitments**

- Reaffirming full-year guidance
- Driving profitability and enabling investment through Strategic Transformation program
- Targeting strategic growth areas to improve revenue trajectory

# Appendix

# Revenue Trend

	2016					2017
(in millions)	Q1	Q2	Q3	Q4	FY	Q1
<b>Total Revenue</b>	<b>\$2,615</b>	<b>\$2,793</b>	<b>\$2,629</b>	<b>\$2,734</b>	<b>\$10,771</b>	<b>\$2,454</b>
% Change	(6.8)%	(4.6)%	(5.6)%	(7.2)%	(6.1)%	(6.2)%
CC <sup>1</sup> % Change	(4.7)%	(3.4)%	(4.1)%	(5.0)%	(4.3)%	(4.3)%
<b>Post Sale</b>	<b>\$2,073</b>	<b>\$2,143</b>	<b>\$2,056</b>	<b>\$2,080</b>	<b>\$8,352</b>	<b>\$1,952</b>
% Change	(5.7)%	(4.2)%	(3.9)%	(5.5)%	(4.8)%	(5.8)%
CC <sup>1</sup> % Change	(3.3)%	(2.9)%	(2.2)%	(3.2)%	(2.9)%	(3.9)%
<b>Post Sale % Revenue</b>	<b>79%</b>	<b>77%</b>	<b>78%</b>	<b>76%</b>	<b>78%</b>	<b>80%</b>
<b>Equipment<sup>2</sup></b>	<b>\$542</b>	<b>\$650</b>	<b>\$573</b>	<b>\$654</b>	<b>\$2,419</b>	<b>\$502</b>
% Change	(11.0)%	(5.7)%	(11.4)%	(12.1)%	(10.0)%	(7.4)%
CC <sup>1</sup> % Change	(9.7)%	(4.9)%	(10.4)%	(10.1)%	(8.7)%	(5.7)%
<b>Memo:</b>						
OEM and CMS impact on Total Revenue	(0.3) pts	(0.2) pts	(0.6) pts	(0.7) pts	(0.4) pts	(0.9) pts

<sup>1</sup> Constant currency: see Non-GAAP Financial Measures

<sup>2</sup> Equipment sales revenue in 2016 has been revised to reclassify certain GIS equipment sales to Other sales, which are included in Post Sale revenue

# 2016 MDS Reconciliation

(in millions)

	2016				
	Q1	Q2	Q3	Q4	FY
<b>Document Outsourcing as reported</b>	<b>\$ 792</b>	<b>\$ 840</b>	<b>\$ 791</b>	<b>\$ 836</b>	<b>\$ 3,259</b>
<b>Adjustments:</b>					
Net, Other Revenue previously reported in DO <sup>1</sup>	(6)	(6)	(9)	(7)	(28)
Global Imaging Systems MPS <sup>2</sup>	50	53	53	54	210
<b>Managed Document Services</b>	<b>\$ 836</b>	<b>\$ 887</b>	<b>\$ 835</b>	<b>\$ 883</b>	<b>\$ 3,441</b>
<b>Document Outsourcing Reported</b>					
% Change	1.6%	0.8%	(1.2)%	(1.7)%	(0.2)%
CC <sup>3</sup> % Change	4.6%	2.3%	0.7%	1.2%	2.2%
<b>Managed Document Services</b>					
% Change	2.0%	1.7%	(0.9)%	(1.4)%	0.3%
CC <sup>3</sup> % Change	4.9%	3.1%	0.9%	1.5%	2.6%

<sup>1</sup> In 2016, Fuji Xerox and development-related revenues were included in the DO business while certain revenues from Conduent were treated as intercompany and therefore excluded

<sup>2</sup> In 2016, MPS revenue from Global Imaging Systems was not included in DO reporting

<sup>3</sup> Constant currency: see Non-GAAP Financial Measures

# Non-GAAP Financial Measures

# Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as on our website at [www.xerox.com/investor](http://www.xerox.com/investor).

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

## Adjusted Earnings Measures

- Net income and Earnings per share (EPS)
- Effective tax rate
- Gross margin, RD&E and SAG (adjusted for non-service retirement-related costs only)

The above measures were adjusted for the following items:

- Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.



# Non-GAAP Financial Measures

- Restructuring and related costs: Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our Strategic Transformation program beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our Strategic Transformation program are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.
- Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortized actuarial gains/losses and (iv) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.
- Other discrete, unusual or infrequent items: In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of the items and their impact on our results for the period: 1) loss on early extinguishment of debt; and 2) a benefit from the remeasurement of a tax matter related to a previously adjusted item. We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.





# Non-GAAP Financial Measures

## Adjusted Operating Income

We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts. In addition to the costs noted for our Adjusted Earnings measures, operating income and margin also exclude other expenses, net. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business. Operating income and margin also includes equity in net income of unconsolidated affiliates. Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. We include this amount in our measure of operating income and margin as Fuji Xerox is our primary intermediary to the Asia/Pacific market for distribution of Xerox branded products and services. First quarter Equity in net income of unconsolidated affiliates included a charge that represents our share of the current Fujifilm estimated adjustments associated with an accounting review at Fuji Xerox's New Zealand subsidiary related to lease receivables. We have excluded this impact for adjusted operating income and margin in order to provide a more normalized view of our operations for the quarter. See Equity in Net Income of Unconsolidated Affiliates for additional information regarding this charge.

## Constant Currency

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as "constant currency." Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

## Free Cash Flow

To better understand trends in our business, we believe that it is helpful to subtract amounts for capital expenditures (inclusive of internal use software) from cash flows from continuing operations. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It is also used to measure our yield on market capitalization.



# Non-GAAP Financial Measures

## **Summary:**

Management believes that all of these non-GAAP financial measures provide an additional means of analyzing the current period's results against the corresponding prior period's results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following tables:

# Q1 GAAP EPS to Adjusted EPS

(in millions, except per share amounts)	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
<b>As Reported</b> <sup>(1)</sup>	\$ 22	\$ 0.02	\$ 69	\$ 0.06
Restructuring and related costs	120		100	
Amortization of intangible assets	14		14	
Non-service retirement related costs	62		46	
Loss on extinguishment of debt	13		-	
Income tax on adjustments <sup>(2)</sup>	(61)		(43)	
Remeasurement of unrecognized tax positions	(16)		-	
<b>Adjusted</b>	<b>\$ 154</b>	<b>\$ 0.15</b>	<b>\$ 186</b>	<b>\$ 0.18</b>
Weighted average shares for adjusted EPS <sup>(3)</sup>		1,052		1,021
Fully diluted shares at end of period <sup>(4)</sup>		1,052		

(1) Net Income and EPS from continuing operations attributable to Xerox.

(2) Refer to the Effective Tax Rate reconciliation.

(3) Average shares for the 2017 calculation of adjusted EPS includes 27 million shares associated with our Series B convertible preferred stock and therefore the related quarterly dividend of \$4 million was excluded. Average shares for the 2016 calculation of adjusted EPS excludes 27 million shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million was included.

(4) Represents common shares outstanding at March 31, 2017 as well as shares associated with our Series B convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share for the first quarter 2017.



# FY EPS Guidance

	<u>FY 2017</u>
<b>GAAP EPS from Continuing Operations</b>	<b>\$0.44 - \$0.52</b>
Non-GAAP Adjustments	<u>0.36</u>
<b>Adjusted EPS from Continuing Operations</b>	<b><u><u>\$0.80 - \$0.88</u></u></b>

Note: Adjusted EPS guidance excludes non-service retirement related costs, restructuring and related costs, and amortization of intangibles.

# Q1 Adjusted Effective Tax Rate

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate
<b>Reported</b> <sup>(1)</sup>	\$ (16)	\$ (24)	150.0%	\$ 32	\$ (2)	(6.3)%
Non-GAAP Adjustments <sup>(2)</sup>	209	61		160	43	
Remeasurement of unrecognized tax positions	-	16		-	-	
<b>Adjusted - revised</b> <sup>(3)</sup>	<b>\$ 193</b>	<b>\$ 53</b>	<b>27.5%</b>	<b>\$ 192</b>	<b>\$ 41</b>	<b>21.4%</b>

(1) Pre-Tax (Loss) Income and Income Tax Benefit from continuing operations.

(2) Refer to Net Income and EPS reconciliations for details.

(3) The tax impact on the Adjusted Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.



# Q1 Adjusted Operating Income/Margin

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported Pre-tax (Loss) Income <sup>(1)</sup></b>	\$ (16)	\$ 2,454	(0.7%)	\$ 32	\$ 2,615	1.2%
<b>Adjustments:</b>						
Restructuring and related costs	120			100		
Amortization of intangible assets	14			14		
Non-service retirement-related costs	62			46		
Equity in net income of unconsolidated affiliates	16			37		
Receivables write-off - Fuji Xerox	30			-		
Other expenses, net	54			45		
<b>Adjusted Operating Profit/Margin</b>	<b>\$ 280</b>	<b>\$ 2,454</b>	<b>11.4%</b>	<b>\$ 274</b>	<b>\$ 2,615</b>	<b>10.5%</b>

(1) Profit and revenue from continuing operations.

# Q1/FY Free Cash Flow

(in millions)

	<u>Q1 2017 Actual</u>	<u>Q1 2016 Actual</u>	<u>FY 2017 Estimated</u>
<u>Operating Cash Flow from Continuing Operations</u>	<u>\$ 190</u>	<u>\$ 87</u>	<u>\$ 700 - 900</u>
Less: CAPEX (inclusive of Internal Use Software)	(26)	(32)	(175)
<b>Free Cash Flow from Continuing Operations</b>	<b><u>\$ 164</u></b>	<b><u>\$ 55</u></b>	<b><u>\$ 525 - 725</u></b>

# Q1 Adjusted Key Financial Ratios

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	As Reported <sup>(1)</sup>	Non-service retirement- related costs	Adjusted	As Reported <sup>(1)</sup>	Non-service retirement- related costs	Adjusted
Total Revenues	\$ 2,454	\$ -	\$ 2,454	\$ 2,615	\$ -	\$ 2,615
Total Gross Profit	954	23	977	1,018	17	1,035
Post Sale revenue	1,952	-	1,952	2,073	-	2,073
Post Sale Gross Profit	801	23	824	852	17	869
RD&E	118	(8)	110	126	(8)	118
SAG	664	(31)	633	701	(21)	680
Total Gross Margin	38.9 %		39.8 %	38.9 %		39.6 %
Post Sale Gross Margin	41.0 %		42.2 %	41.1 %		41.9 %
RD&E as a % of Revenue	4.8 %		4.5 %	4.8 %		4.5 %
SAG as a % of Revenue	27.1 %		25.8 %	26.8 %		26.0 %

(1) Revenue and costs from continuing operations.





# Q1 Adjusted Other, Net

(in millions)

**Other expenses, net - Reported**

Adjustment:

Loss on early extinguishment of debt

**Other expenses, net - Adjusted**

## Three Months Ended

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	\$ 54	\$ 45
	(13)	-
	<u>\$ 41</u>	<u>\$ 45</u>

# Q1 Adjusted Equity in Net Income of Unconsolidated Affiliates

(in millions)	Three Months Ended	
	March 31, 2017	March 31, 2016
<b>Equity Income in unconsolidated affiliates - Reported</b>	\$ 16	\$ 37
Adjustment:		
Receivables write-off - Fuji Xerox	30	-
<b>Equity Income in unconsolidated affiliates - Adjusted</b>	<b>\$ 46</b>	<b>\$ 37</b>

# Q4/FY GAAP EPS to Adjusted EPS from Continuing Operations

(in millions, except per share amounts)	Three Months Ended December 31, 2016		Three Months Ended December 31, 2015		Year Ended December 31, 2016		Year Ended December 31, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
<b>As Reported</b> <sup>(1)</sup>	\$ 181	\$ 0.17	\$ 256	\$ 0.24	\$ 616	\$ 0.58	\$ 848	\$ 0.77
Amortization of intangible assets	14		14		58		60	
Restructuring and related costs - Xerox	92		(4)		264		27	
Non-service retirement related costs	19		34		131		116	
Income tax on adjustments <sup>(2)</sup>	(46)		(15)		(151)		(77)	
Restructuring charges - Fuji Xerox	-		-		3		4	
<b>Adjusted</b>	<b>\$ 260</b>	<b>\$ 0.25</b>	<b>\$ 285</b>	<b>\$ 0.27</b>	<b>\$ 921</b>	<b>\$ 0.88</b>	<b>\$ 978</b>	<b>\$ 0.89</b>
Weighted average shares - adjusted EPS <sup>(3)</sup>		1,055		1,046		1,024		1,076
Fully diluted shares at end of period <sup>(4)</sup>		1,055						

(1) Net Income and EPS from continuing operations attributable to Xerox.

(2) Refer to Continuing Operations Effective Tax Rate reconciliation.

(3) Average shares for the quarterly calculations of adjusted EPS include 27 million shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million was excluded. Average shares for the yearly calculations of adjusted EPS exclude 27 million shares associated with our Series A convertible preferred stock and therefore the related annual dividend of \$24 million was included.

(4) Represents common shares outstanding at December 31, 2016 as well as shares associated with our Series B convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share for the fourth quarter 2016.

# Q4/FY Adj Effective Tax Rate from Continuing Operations

(in millions)	Three Months Ended December 31, 2016			Three Months Ended December 31, 2015			Year Ended December 31, 2016			Year Ended December 31, 2015		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
<b>Reported<sup>(1)</sup></b>	\$ 179	\$ 18	10.1%	\$ 287	\$ 58	20.2%	\$ 568	\$ 62	10.9%	\$ 924	\$ 193	20.9%
Non-GAAP Adjustments <sup>(2)</sup>	125	46		44	15		453	151		203	77	
<b>Adjusted - revised<sup>(3)</sup></b>	<u>\$ 304</u>	<u>\$ 64</u>	<u>21.1%</u>	<u>\$ 331</u>	<u>\$ 73</u>	<u>22.1%</u>	<u>\$ 1,021</u>	<u>\$ 213</u>	<u>20.9%</u>	<u>\$ 1,127</u>	<u>\$ 270</u>	<u>24.0%</u>

(1) Pre-Tax Income and Income Tax Expense from continued operations.

(2) Refer to Continuing Operations Net Income and EPS reconciliations for details. Amounts exclude Fuji Xerox restructuring as these amounts are net of tax.

(3) The tax impact on the Adjusted Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

# FY Adjusted Operating Income/Margin

(in millions)	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported Pre-tax Income<sup>(1)</sup></b>	\$ 568	\$ 10,771	5.3%	\$ 924	\$ 11,465	8.1%
<b>Adjustments:</b>						
Amortization of intangible assets	58			60		
Restructuring and related costs	264			27		
Non-service retirement-related costs	131			116		
Equity in net income of unconsolidated affiliates	121			135		
Other expenses, net	200			195		
<b>Adjusted Operating</b>	<b>\$ 1,342</b>	<b>\$ 10,771</b>	<b>12.5%</b>	<b>\$ 1,457</b>	<b>\$ 11,465</b>	<b>12.7%</b>

(1) Profit and revenue from continuing operations.

