

# Xerox Reports First Quarter 2017 Results

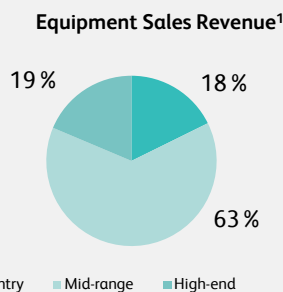
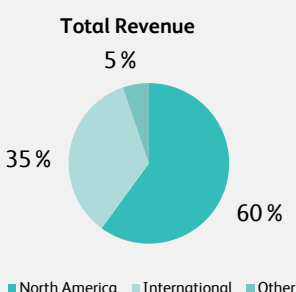
## First-Quarter Highlights

- Revenue trajectory in-line with full-year expectations
- Operating margin YOY expansion continues as Strategic Transformation savings are offsetting currency headwinds and outpacing revenue declines
- Good operating cash flow
- Announced largest product launch in company history

## First Quarter Results

### Revenue \$2.5B, down (6.2)% or (4.3)% CC\*

- Equipment<sup>1</sup> \$502M, down (7.4)% or (5.7)% CC\*
- Post Sale \$2.0B, down (5.8)% or (3.9)% CC\*;  
80% of Total Revenue



- **Gross Margin – adjusted<sup>2</sup>**: 39.8%, up 0.2 pts YOY
- **Operating Margin – adjusted<sup>3</sup>**: 11.4%, up 90 bps YOY
- **Tax Rate – adjusted<sup>2</sup>**: 27.5% vs. 21.4% in Q1 '16
- **EPS**: GAAP \$0.02, adjusted<sup>2</sup> \$0.15

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

- **Operating Cash Flow** from continuing operations \$190M, up \$103M YOY
- **Free Cash Flow<sup>4</sup>** \$164M; **CAPEX** \$26M
- **Ending debt** \$5.0B
- **Ending cash balance** \$1.0B

## Key Metrics

**Strategic Growth Areas revenue** grew 1% CC\* and comprised 39% of total, up 2 pts YOY

**Strategic Transformation** savings target of \$600M for FY 2017 on track

**Enterprise MDS Signings** of \$0.5B TCV declined 6% CC\* YOY

### Q1 Installs – YOY % change

- Entry A4 MFDs<sup>5</sup> color up 15%, B&W up 1%
- Mid-Range color<sup>6</sup> flat, B&W down (24)%
- High-End color<sup>6</sup> down (15)%, B&W down (25)%

## FY Guidance

### Reiterating FY 2017 Guidance:

- **Revenue** down mid-single digits at CC\*
- **Operating Margin – adjusted<sup>3</sup>**: 12.5% - 13.5%
- **EPS – adjusted<sup>2</sup>**: \$0.80 - \$0.88
- **GAAP EPS** from continuing operations: \$0.44 - \$0.52
- **Tax rate – adjusted<sup>2</sup>**: 25% - 28%
- **Operating Cash Flow** from continuing operations: \$700 - \$900M

\* Constant currency (CC)

(1) Equipment sales revenue in 2016 has been revised to reclassify certain Global Imaging Systems equipment sales to Other sales, which are included in Post Sale revenue (see Q1 2017 Earnings Presentation Appendix for revised amounts).

(2) Adjustments include amortization of intangible assets, restructuring and related costs, non-service retirement related costs and other discrete items.

(3) Adjustments include those noted above for the Adjusted earnings measures, and additionally, the exclusion of other expenses, net, and inclusion of equity in net income of unconsolidated affiliates.

(4) Adjusted measure to exclude amounts for capital expenditures, including internal use software, from cash flow from continuing operations.

(5) Entry installs exclude OEM sales, including OEM sales Color A4 down (13)%, B&W A4 down (3)%

(6) Mid-range and High-end installs exclude digital front end sales to Fuji Xerox.

Please see our forward looking statements and non-GAAP reconciliation contained in our first quarter 2017 earnings release posted on our website at <http://www.xerox.com/investor>.

