



Xerox Responds to Carl Icahn and Darwin Deason Open Letter

February 13, 2018

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Additional Information and Where to Find It

This filing may be deemed to be solicitation material in respect of the transaction with FujiFilm described herein (the “Transaction”) and/or the matters to be considered at the Company’s 2018 Annual Meeting. In connection with the Transaction and the 2018 Annual Meeting, Xerox plans to file with the Securities and Exchange Commission (“SEC”) and furnish to Xerox’s shareholders one or more proxy statements and other relevant documents. BEFORE MAKING ANY VOTING DECISION, XEROX’S SHAREHOLDERS ARE URGED TO READ THE PROXY STATEMENT(S) IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE AND ANY OTHER DOCUMENTS TO BE FILED WITH THE SEC IN CONNECTION WITH THE TRANSACTIONS AND/OR THE COMPANY’S 2018 ANNUAL MEETING OR INCORPORATED BY REFERENCE IN THE PROXY STATEMENTS BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE TRANSACTIONS AND/OR THE COMPANY’S 2018 ANNUAL MEETING AND THE PARTIES RELATED THERETO. Xerox’s shareholders will be able to obtain a free copy of documents filed with the SEC at the SEC’s website at <http://www.sec.gov>. In addition, Xerox’s shareholders may obtain a free copy of Xerox’s filings with the SEC from Xerox’s website at <http://www.xerox.com> under the heading “Investor Relations” and then under the heading “SEC Filings.”

Participants in the Solicitation

The directors, executive officers and certain other members of management and employees of Xerox may be deemed “participants” in the solicitation of proxies from shareholders of Xerox in favor of the Transaction or in connection with the matters to be considered at the Company’s 2018 Annual Meeting. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the shareholders of Xerox in connection with the Transaction or the Company’s 2018 Annual Meeting will be set forth in the applicable proxy statement and other relevant documents to be filed with the SEC. You can find information about Xerox’s executive officers and directors in Xerox’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, Xerox’s and such persons’ other filings with the SEC and in Xerox’s definitive proxy statement filed with the SEC on Schedule 14A.

Cautionary Statement Regarding Forward-Looking Statements

This report, and other written or oral statements made from time to time by management contain “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 and 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,

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Forward-Looking Statements (cont'd)

(cont.) including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment 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; the effects on our business resulting from actions of activist shareholders; 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 Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017 and our 2016 Annual Report on Form 10-K, as well as our Current Reports on Form 8-K filed with the SEC. Furthermore, the actual results of the Transaction could vary materially as a result of a number of factors, including, but not limited to: (i) the risk that the Transaction may not be completed in a timely manner or at all, which may adversely affect Xerox's business and the price of Xerox's common stock, (ii) the failure to satisfy the conditions to the consummation of the Transaction, including the receipt of certain approvals from Xerox's shareholders and certain governmental and regulatory approvals, (iii) the parties may be unable to achieve expected synergies and operating efficiencies in the Transaction within the expected time frames or at all, (iv) the Transaction may not result in the accretion to Xerox's earnings or other benefits, (v) the occurrence of any event, change or other circumstance that could give rise to the termination of the Transaction agreements, (vi) the effect of the announcement or pendency of the Transaction on Xerox's and/or Fujifilm's business relationships, operating results, and business generally, risks related to the proposed Transaction disrupting Xerox's current plans and operations and potential difficulties in Xerox's employee retention as a result of the Transaction, (vii) risks related to diverting management's attention from Xerox's ongoing business operations, (viii) the outcome of any legal proceedings that may be instituted against Xerox, its officers or directors related to the Transaction agreements or the Transaction and (ix) the possibility that competing offers or acquisition proposals for Xerox will be made. 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.

Fuji Xerox is a joint venture between Xerox Corporation and Fujifilm in which Xerox holds a noncontrolling 25% equity interest and Fujifilm holds the remaining equity interest. In April 2017, Fujifilm formed an independent investigation committee (IIC) to primarily conduct a review of the appropriateness of the accounting practices at Fuji Xerox's New Zealand subsidiary and at other subsidiaries. The IIC completed its review during the second quarter 2017 and identified aggregate adjustments to Fuji Xerox's financial statements of approximately JPY 40 billion (approximately \$360 million) primarily related to misstatements at Fuji Xerox's New Zealand and Australian subsidiaries. We determined that our share of the total adjustments identified as part of the investigation was approximately \$90 million and impacted our fiscal years 2009 through 2017. We concluded that we should revise our previously issued annual and interim consolidated financial statements for 2014, 2015 and 2016 and the first quarter of 2017 the next time they are filed. Our review of this matter has been completed. However, Fujifilm and Fuji Xerox continue to review Fujifilm's oversight and governance of Fuji Xerox as well as Fuji Xerox's oversight and governance over its businesses in light of the findings of the IIC. At this time, we can provide no assurances relative to the outcome of any potential governmental investigations or any consequences thereof that may happen as a result of this matter.

Comparison of Value Components on “Day 1”

Icahn / Deason View of Transaction Value		Reality	
Component	Value / Share	Component	Value / Share
\$1.25B	~\$4.90 ¹	\$2.5B Cash Dividend	~\$9.80 ¹
		+	
		Additional Ownership in Fuji Xerox	~\$13 ²
		+	
		49.9% of Standalone Xerox	~\$10 ³
		+	
		49.9% of Capitalized Synergies	~\$12 ⁴
		<hr style="border-top: 1px dashed #000;"/>	
		Illustrative Total Value	~\$45

Additional components of shareholder value equation not recognized by Mr. Icahn and Mr. Deason in the Letter

Does not reflect combined company’s value creation and/or multiple expansion over time

Source: Xerox management.

- Based on current shares outstanding (254.6M) assuming no dilution of convertible preferred shares.
- Based on \$7.0bn equity value of 75% of Fuji Xerox (mid-point of 7–8x 2018E EBITDA range per p. 28 of Xerox Presentation as filed on February 9, 2017), multiplied by 49.9% and divided by 267.3M fully diluted shares outstanding.
- Based on \$8.1bn unaffected market capitalization as of January 10, 2018 less \$2.5bn of additional net debt to fund cash dividend, multiplied by 49.9% and divided by 267.3M fully diluted shares outstanding.
- Based on \$3.2bn in present value of transaction synergies (mid-point of 7–8x run-rate synergies of \$1.25bn, multiplied by 49.9% and discounted to the present per p. 29 of Xerox Presentation as filed on February 9, 2017), divided by 267.3M fully diluted shares outstanding.

Relative Ownership Analysis

- Relative equity value contribution implies transaction terms are favorable to Xerox shareholders
- Applying a higher multiple to Fuji Xerox (reflecting exposure to growth markets), implies that transaction terms are even more favorable

Illustrative Fuji Xerox Equity Value at Various Multiples

	7.0x	7.5x	8.0x
2018E Adj. EBITDA	\$1.2	\$1.2	\$1.2
Enterprise Value	\$8.5	\$9.2	\$9.8
(+) Net Cash & Other ¹	0.2	0.2	0.2
(-) 25% Already Owned by Xerox	(2.1)	(2.3)	(2.5)
Equity Value Contributed	A \$6.6	B \$7.0	C \$7.5

Xerox Equity Value at Recent Stock Prices

	Unaffected ²	VWAP Since Separation ³
Share Price	\$30.35	\$29.50
Fully Diluted Shares Outstanding ⁴	267	267
Equity Value	\$8.1	\$7.9
(-) Cash Dividend to Xerox Shareholders	(2.5)	(2.5)
Equity Value Contributed	\$5.6	\$5.4

Implied Ownership to Xerox Shareholders (vs. 49.9% in transaction)

A	Fuji Xerox at 7.0x	46%	45%
B	Fuji Xerox at 7.5x	44%	43%
C	Fuji Xerox at 8.0x	43%	42%

Source: Xerox management, Fuji Xerox management and FactSet.

Notes: Dollars in billions, except share prices. Assumes exchange rate of JPY114: US\$1. Based on calendar year end. Numbers may not sum due to rounding.
 1. Reflects \$193M of Net Cash, \$33M of Non-Controlling Interest, \$136M of Equity Investments and \$61M of Unfunded Pension Liabilities, net of tax.
 2. Based on \$30.35 unaffected share price as of January 10, 2018.
 3. Based on Volume Weighted Average Price since separation of Conduent on January 2, 2017 until date of unaffected share price (January 10, 2018).
 4. Reflects 254.6M basic shares, 6.0M RSUs and PSUs, and 6.7M shares underlying Series B convertible preferred as-if converted.

Value of Transaction Synergies

	Illustrative Value of Transaction Cost Synergies		
<i>EV / Adj. EBITDA</i>	<i>7.0x</i>	<i>7.5x</i>	<i>8.0x</i>
Run-Rate Synergies	\$1.25	\$1.25	\$1.25
Enterprise Value	\$8.8	\$9.4	\$10.0
<i>(x) Xerox % of NewCo</i>	49.9%	49.9%	49.9%
EV Attributable to Xerox Shareholders	\$4.4	\$4.7	\$5.0
EV Attributable to Xerox Shareholders (Present Value)¹	\$3.0	\$3.2	\$3.5
<i>(/) Xerox Fully-Diluted Share Count²</i>	267	267	267
EV Attributable to Xerox Shareholders (Present Value) / Share	\$11	\$12	\$13
<i>% of Xerox Share Unaffected Share Price³</i>	37%	40%	43%

Synergy value to Xerox shareholders reflects additional \$11–13 / share

