

Xerox Reports Second-Quarter 2018 Results and Establishes Business Priorities

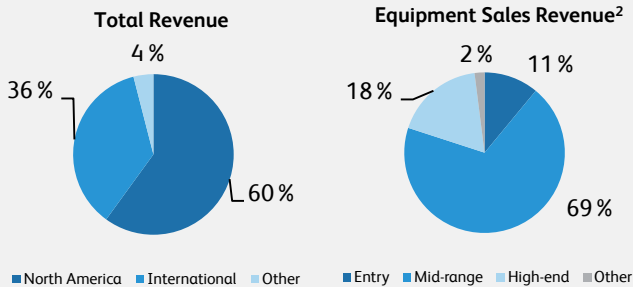
Rebuilding a Tech Company Powerhouse - Priorities:

- Drive revenue
- Optimize operations for simplicity to better serve clients and partners
- Re-energize the innovation engine
- Focus on cash flow and increase capital returns

Second-Quarter Results

Revenue \$2.5B, down 2.2% or 4.0% CC¹

- Equipment \$0.6B, up 0.9% or down 0.6% CC¹
- Post Sale \$1.9B, down 3.1% or 5.0% CC¹; 78% of Total Revenue



- **Gross Margin:** 39.9%, down 0.7 pts YOY
- **Operating Margin – adjusted¹:** 11.9%, down 1.3 pts YOY, including (80) bps impact from one-time items
- **Equity Income:** \$19M, down \$1M YOY
- **Tax Rate – adjusted¹:** 26.7% vs. 27.0% in Q2 '17
- **GAAP EPS:** \$0.42, down 21 cents YOY; includes 17 cents of transaction and related costs, net
- **EPS – adjusted¹:** \$0.80, down 6 cents YOY
- **Operating Cash Flow (OCF):** Q2 \$235M; H1 \$451M
- **Free Cash Flow (FCF)¹:** Q2 \$203M; H1 \$401M
- **Ending debt:** \$5.2B (\$3.5B financing & \$1.7B core), repaid May 2018 Senior Notes of \$265M
- **Ending cash balance:** \$1.3B

Key Metrics

MDS revenue up 4.6% or 2.3% CC¹ YOY

Installs – YOY % change

- Entry A4 MFPs³ color up 21%, B&W up 21%
- Mid-Range color⁴ up 29%, B&W up 13%
- High-End color⁴ down 9%, B&W down 12%

Financial Expectations

- Reiterating full-year OCF of \$900M-\$1.1B and FCF of \$750-950M
- Will provide an update on our strategy and longer-term expectations at an analyst day later this year or early 2019
- Board authorized \$1B of share repurchases; we anticipate to opportunistically repurchase up to \$500M in 2018

(1) Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures contained in our second-quarter 2018 earnings release and slides posted on our website at <http://www.xerox.com/investor>. (2) Entry equipment revenue excludes OEM business, which is included in Other equipment revenue. (3) Entry installations exclude OEM sales, including OEM sales Color A4 MFPs down 20%, B&W up 12%. (4) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales (DFEs); including DFEs, Mid-range color was up 29%, and High-end color down 10%.

For additional information, please refer to our forward looking statements and non-GAAP reconciliations contained in our second-quarter 2018 earnings release posted on our website at <http://www.xerox.com/investor>.

