

— PARTICIPANTS

Corporate Participants

Giovanni Visentin – Vice Chairman & Chief Executive Officer, Xerox Corp.
William F. Osbourn – Executive Vice President & Chief Financial Officer, Xerox Corp.
Jennifer Horsley – Vice President-Investor Relations, Xerox Corp.

Other Participants

Matthew Cabral – Analyst, Credit Suisse Securities (USA) LLC
Ananda Baruah – Analyst, Loop Capital Markets LLC
Jim Suva – Analyst, Citigroup Global Markets, Inc.
Paul Coster – Analyst, JPMorgan Securities LLC
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Kathryn Lynn Huberty – Analyst, Morgan Stanley & Co. LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Xerox Corporation First Quarter 2019 Earnings Release Conference Call hosted by John Visentin, Vice Chairman and Chief Executive Officer. He is joined by Bill Osbourn, Chief Financial Officer. During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor. At the request of Xerox Corporation, today's conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the expressed permission of Xerox.

After the presentation, there will be a question-and-answer session. [Operator Instructions] During this call, Xerox executives will make comments that contain forward-looking statements, which by their nature address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Mr. Visentin. Mr. Visentin, you may begin.

Giovanni Visentin, Vice Chairman & Chief Executive Officer, Xerox Corp.

Good morning, and thank you for joining our Q1 2019 earnings call. Today I'm going to give you a progress report on how we're executing on our strategy, starting with our financial highlights. Our transformation initiatives are yielding results, which gives us confidence to raise our full year earnings guidance despite revenue declines. We are investing in our core business as well as new technologies that create value for our stakeholders and position Xerox for the long-term growth.

Overall, we saw improvements in margin, operating cash flow and earnings per share as compared to the prior year period. Adjusted operating margin was 11.3%, up 140 basis points year-over-year. Margin expansion contributed to us delivering adjusted earnings per share of \$0.91, up \$0.23, or 34% year-over-year. We generated \$226 million of operating cash flow, an increase of \$10 million from a year ago. Free cash flow was \$211 million, up \$13 million year-over-year.

While we drove improvements in these three key measures, revenue in the first quarter was down 7% at constant currency year-over-year. As a result, we are increasing investments in near-term revenue directed initiatives, which we expect to see benefits from as we move through the balance of 2019. The anticipated benefits of these investments, together with the relative stability of our

underlying page volume trends, gives us confidence to maintain our revenue guidance of approximately 5% down for the year at constant currency.

Given our results in the first quarter, we are raising our guidance for full-year adjusted EPS from \$3.70 per share to \$3.80 per share to \$3.80 per share to \$3.95 per share.

At our Investor Day in February, we discussed the key drivers of Project Own It, our enterprise-wide initiative to simplify and streamline our operations and instill a culture of continuous improvement. This year, we expect Project Own It to deliver at least \$640 million in gross savings, and the results already delivered by Project Own It enable us to increase EPS guidance for the year, while also increasing investments in our business. In the first quarter, we accelerated building a more efficient shared services operation, which we anticipate will deliver at least \$90 million in savings this year, while making it easier for clients to do business with us.

We also began standing up an automation center of excellence and implementing rule-based robotic process automation across many of our repeatable work streams, such as invoice processing. By automating invoice processing, we increase accuracy, reduce processing time and improve client satisfaction, all while reducing costs. The rationalization of our real estate portfolio is another area where we made significant progress. We consolidated 83% of our targeted sites which enables employees to co-locate and increase collaboration while we reduce our costs. Lastly, we're starting to see benefits of work we put in with our suppliers, to increase the velocity of our supply chain and improve pricing.

As for revenue, it will take time to change our trajectory, and we took that into account when we developed our plan for the year and provided our full year guidance. In the first quarter, two factors primarily led to a larger decline in revenue, despite relative stability in underlying page volume trends. The first was timing of both equipment sales revenue and transactional post-sales revenue. Second, we saw slowdown in some areas impacted by changes made to the business. We implemented several key actions under Project Own It in Q4 2018, and early Q1 2019. And we don't want to minimize the risk of disruption that change brings. But in each case, we chose to implement these actions now because we know that they are best for Xerox in the long-term. And we already have plans in action, investments underway to help ensure the disruption is temporary.

We are seeing growth trends in certain key areas. Clients are signaling that they believe in our strategy, products and services, by rewarding us with renewals and some large competitive win backs. These trends, together with our revenue directed investments, and the relative stability of our underlying page volume trends gives us confidence to maintain our guidance of approximately 5% down for the year at constant currency.

Our entry level category expanded, and we are starting to see traction with our A4s. To help support growing both our A4 and A3 placements, we are investing in programs that target competitive equipment, and expand our distribution channels. In the high-end category we are now nearly flat with continued momentum from the Iridesse production press. The Iridesse is the only digital press that can print up to six colors in one single pass, with excellent accuracy and the ability to embellish with decorate inks like gold, silver, clear and white. Iridesse performed well in Q1 and continues to attract new customers and knockout competition with its strong value proposition, while also protecting our critical machines in the field. In the first quarter, 40% of our placements came from competitive trade-ins and new business.

Within services and software, we are investing in our portfolio of next generation offerings and we are seeing momentum. We have secured several multimillion dollar multiyear deals and key renewals with clients such as Delta Airlines, and Morrisons, one of the largest retailers in the UK. Services in software is an area where we expect to see additional improvement throughout 2019.

We're investing in our expanded portfolio of services and software solutions in healthcare, insurance, public sector, and retail, as well as across industry solutions such as accounts payable and campaigns on demand. We are leveraging our core competencies and intellectual property to diversify revenue mix, move into adjacent markets and offer end-to-end solutions.

For instance, our Intelligent Workplace Services elevates traditional Managed Print Services and offering Xerox pioneer and continues to maintain its leadership position in. With Intelligent Workplace Services we have added advanced analytics and security features to create this next generation offering, which adds further differentiation and value for our clients.

Two additional areas where we are investing, includes growing our direct sales force and expanding our channel business. Next month we will bring partners together for our first ever Global Partner Summit to introduce them to our new product portfolio and roadmap. We have made progress on our innovation roadmap which includes four focus areas; 3D printing and digital manufacturing, digital packaging and print, centers and services for the IoT, and AI workflow assistance.

Vader Systems, the liquid metal jet 3D printer manufacturer we recently acquired, has now been integrated into our R&D organization. By pairing our expertise with Vader's IP, we are looking to apply this technology to a broader set of materials while lowering the run rate cost for clients. Next month, we will be exhibiting our 3D capabilities for the first time at Rapid + TCT, one of the largest additive manufacturing tradeshow in North America. We are actively identifying strategic partnerships and additional early customer adopters for our additive manufacturing initiatives.

Similarly, beta testing has expanded for our SaaS-based AI workflow assistance that support knowledge workers with authoring proposals and other business development documents. We are now testing it within Xerox and at a few small and midsize clients and Fortune 500 companies. There is strong potential for this technology to disrupt the RFP process, an area where companies spend an estimated \$60 billion annually.

Our innovation efforts aren't just about investing in these longer term opportunities, we are also investing in and advancing our core printer business. In graphic communications, we revealed the Xerox Rialto 900 MP Inkjet Press, a roll-to-cut-sheet platform designed to deliver maximum productivity per square meter. This new model increases output by 33%. The Rialto 900 MP will be available in Q3 2019 globally. In workplace solutions, we enabled mobile on-the-go print services with the Xerox Instant Print Kiosk. What's unique about our kiosk is that it offers an array of self-serve document processing capabilities with the ability to charge on a per-job basis, providing our clients an additional opportunity to drive revenue.

Cybersecurity is a central challenge for our clients. At our Security Summit held in Washington, we announced that Xerox AltaLink MSPs are now embedded with security technologies that can detect and neutralize cyber threats instantaneously. This kind of rapid response is critical when seconds mean the difference between an effective threat response and a compromising breach. These are the types of security features that have helped us stand apart from our competition and have earned us recognition from industry analysts like IDC. We continue to take a disciplined approach to investing in innovation to ensure we leverage our capital efficiently.

Operating cash flow in the first quarter was \$226 million, an increase of \$10 million year-over-year, and free cash flow in the first quarter was \$211 million, up \$13 million year-over-year. We repurchased 103 million of our shares, distributed \$62 million in dividends and repaid \$406 million in debt in the quarter. As a result, we ended the quarter with \$723 million of cash on the balance sheet.

Before wrapping up, I want to directly address some of the most frequent questions we get. We are seeking shareholder approval of a holding company reorganization at our Annual Meeting

scheduled for May 21. This is a common structure used by technology companies to gain more flexibility to structure long-term investments. It does not change our business operations or our overall strategy, and its adoption is not related to or in contemplation of any specific transaction or opportunity. We are also evaluating strategic alternatives for our leasing business. We said all along that this is a good business, but it may not be the most efficient use of our balance sheet. It is possible that there may be no transaction. We are committed to maintaining a strong balance sheet and ensuring our clients continue to have excellent service.

With strong margins and EPS expansion driven by Project Own It, we are increasing investments in our business beyond the \$0.32 of EPS we originally forecasted for the year with a continued emphasis on revenue-related investments. We expect to see the benefits of these revenue-related investments through the balance of 2019 and into 2020.

Now, I would like to hand it over to Bill to cover our financial results in detail.

William F. Osbourn, Executive Vice President & Chief Financial Officer, Xerox Corp.

Thank you, Giovanni. As Giovanni reviewed, we saw good progress on cost and productivity from Project Own It that drove margin improvement, which coupled with higher equity income and lower shares resulted in strong adjusted earnings expansion of 34% and enables us to raise our full year adjusted earnings guidance to \$3.80 to \$3.95 from a range of \$3.70 to \$3.80. This result also demonstrates the current positive earnings expansion setup that we have while we build the foundation to turn around revenue.

I will now review in more detail the income statement. In total, revenue declined 7% at constant currency and 9.4% at actual currency. This below-trend performance was largely driven by two factors: lower transactional revenues and a decrease in activity in certain areas as we implemented some of our transformational actions. I'll cover these factors in more detail when I review revenue. However, it is important to note that we saw relative stability in underlying page volume trends and anticipate revenue rates of decline will improve each quarter as we move through 2019.

Turning to profitability, adjusted operating margin of 11.3% improved 140 basis points year-over-year and drove \$7 million in operating profit growth as the decline in revenue was more than offset by Project Own It driven improvement in gross margin, a 50 basis points and in SAG as a percentage of revenue of 100 basis points. RD&E was 4.2% of revenue, which was 10 basis points higher year-over-year due to lower revenue as well as reductions in sustaining engineering that were partially offset by investments within our research centers and incubation programs in support of our growth initiatives.

Below operating profit, adjusted equity income of \$57 million increased \$46 million year-over-year from onetime adjustments in the prior year as well as benefits to Fuji Xerox from the recent cost actions. Adjusted other expenses net of \$26 million was \$21 million worse year-over-year driven by lower gains on asset sales while the adjusted tax rate of 26% decreased 2.3 points year-over-year.

Overall, adjusted EPS of \$0.91 was up \$0.23 from the first quarter of 2018. On a GAAP basis we had \$0.55 of earnings per share which was up \$0.47 from the first quarter of 2018. The largest drivers of the difference between GAAP and adjusted were transaction costs in the prior year of \$38 million associated with the terminated Fuji transaction and a \$35 million credit in 2019 associated with the U.S. Tax Act. The difference between GAAP and adjusted EPS also includes our normal adjustments around restructuring and related costs, including those for Fuji Xerox, non-service retirement-related costs and amortization of intangible assets.

To quickly touch on restructuring and related costs, in Q1, we had \$112 million of charges, in line with our plan. In addition to normal course restructuring, this amount included \$50 million of asset

impairment and other facility-related charges as we consolidate and decommission facilities as well as \$38 million related to severance costs that we are contractually required to pay on employees transferred as part of the shared services arrangement we recently entered into with HCL. We continue to expect approximately \$225 million of restructuring and related costs for the full year.

Before moving on to our discussion of cash flows, I wanted to cover one other guidance update. We believe our stock at these levels represents a good value and return on investment. Accordingly, we are increasing our full year expectations for share repurchase to at least \$600 million from at least \$300 million, with the expectation that the incremental repurchases will be weighted toward the latter part of the year.

Moving now to cash flow. Operating cash flow was a source of \$226 million, up \$10 million year-over-year, and free cash flow was \$211 million, up \$13 million. This represents a good start to the year in what historically is our seasonally lowest cash flow quarter and puts us on track to deliver our full year operating cash flow guidance of \$1.15 billion to \$1.25 billion and free cash flow guidance of \$1.0 billion to \$1.1 billion.

Key cash flow drivers in Q1 included a higher use of cash from accrued compensation, \$73 million in Q1 2019 versus \$32 million in Q1 2018 as we move the timing of the payment of 2018 annual bonuses into Q1 this year. Our use of cash within working capital of \$45 million, as the decrease in cash flow from accounts payable due to the timing of supplier and vendor payments, as well as lower spending more than offset a lower use or improvement in inventory. Restructuring payments of \$33 million and defined pension plan contributions of \$34 million both were lower year-over-year driven in part by changes to our policies and benefits. Finance assets were a source of \$110 million reflecting both seasonality was a source of \$93 million in 2018, as well as lower originations and the move we have seen over time of sales to channels with lower internal financing penetration.

CapEx in the quarter was a use of \$15 million which was modestly under the \$18 million in 2018. We continue to expect approximately \$150 million of CapEx for the full year. Lastly, within financing cash flows we returned \$165 million or 78% of free cash flow to shareholders through \$62 million in dividends and \$103 million in share repurchase, representing 3.3 million shares at an average price of \$31.05 per share.

If we turn to the next slide, I'll review in more detail the revenue dynamics in the quarter. As referenced earlier, first quarter revenue declined 9.4%, or 7% at constant currency, and included a negative 1 point impact from the OEM business that has been running off the loss of a large customer. This negative impact will decrease to only about 0.5 point starting in Q2. Overall the revenue decline was below our full year expectations of down approximately 5% to constant currency driven by two unique factors. First, timing within transactional revenue streams, both ESR and within post-sale, and second, a slowdown in some areas where we made organizational or coverage changes.

Looking forward, we expect the rate of decline to improve each quarter sequentially on a year-over-year basis getting us in the range of an approximate 5% decline in constant currency for the full year, currency impact to lessen during the year, but still slightly more than 1% negative full year impact. This improvement comes from moving beyond some of the Q1 headwinds as well as from expectations that benefits will begin to build from investments we are making to drive revenue. Our Q1 profitability allows us to increase our planned revenue investments through the year.

Turning for a closer look at revenue streams starting with equipment, although down 10.2%, or 7.6% in constant currency, results were actually mixed. Entry once again showed growth and was up 3.2% at constant currency driven by indirect channels. High-end improved from recent trends and was relatively flat year-over-year at constant currency with positive mix dynamics driven by strong sales of the Iridesse production press as well as good activity in the high-end inkjet driven by our Brenva press. Offsetting these positives were declines in mid-range which was down 7.2% at

constant currency as we saw a slowdown in sales in some areas as we implemented organizational changes and where within XBS we transitioned a significant number of accounts from U.S. enterprise.

Wholesale in the quarter was down 9.2% or 6.8% at constant currency. This was off trend of down 5% to 5.5% at constant currency. However, I would like to highlight that the underlying page volume trends while still declining were broadly stable which gives us confidence that Q2 should begin to show improvement. Within Q1, results were softer in the two areas we highlighted. First in the more transactional post-sale streams, declines were higher driven by lower unbundled sales of paper and supplies in developing market regions following a strong Q4 and within XBS, the timing of larger third-party IT hardware sales.

In XBS we have direct line of sight to a significant third-party IT hardware deal already for Q2. The secondary related to a slowdown in areas where we had organizational changes. For instance, there were higher declines in the accounts recently transferred to XBS, so as to gain better coverage alignment and where new account management is still ramping up.

To closeout our revenue discussion, services which we previously termed Management Document Services, or MDS, comprised 39% of revenue and declined 2.9% in constant currency. We continue to see growth in SMB services which comprised approximately 29% of services revenue however, results here were also impacted by the factors mentioned earlier. Overall, we expect improvement in services as we gain traction from the recently announced new offerings and coverage investments and recover from lower signings in prior periods.

So to reiterate, we expect improving trends in revenue, however, as we indicated last quarter we have realistic expectations around the path to improvement, and our earnings and cash flow guidance in 2019 do not rely on better revenue trends as was demonstrated with the adjusted EPS guidance increase we announced today.

Shifting now from revenue to profitability and earnings. Adjusted operating margin of 11.3% increased 140 basis points year-over-year while adjusted EPS of \$0.91 increased \$0.23 or 34% year-over-year which represented our strongest EPS growth in some time, both very positive results that point to the progress we are making in transforming our operations.

Looking at the drivers year-over-year, the adjusted operating margin expansion of 140 basis points more than offset the impact of the revenue declines and resulted in \$7 million growth in adjusted operating profit. Within our operations, as John covered, we are seeing the flow-through benefits of Project Own It. These actions span the enterprise, and we are confident in achieving at least \$640 million in savings we targeted with the large majority of those savings coming from actions that have already been put in motion. This also puts us on track to deliver our guidance of 100 basis points to 150 basis points improvement in adjusted operating margin for the full year.

Overall, our operating results coupled with the growth in equity income and lower shares drove our strong earnings. So very positive results on profitability and earnings which we expect will continue, although I should note that we don't anticipate equity income to provide as much of a benefit in Q2 given the seasonality of Fuji Xerox this fiscal year where our Q2 is their Q1.

I will now finish up with a discussion on capital structure. We ended the first quarter with \$4.8 billion of debt and \$723 million of cash on the balance sheet. We break down debt between financing and core by first calculating the financing debt by applying 7:1 leverage to our financing assets, financing receivables and equipment on operating leases, with the remaining debt assumed to be in support of the core business. In Q1, this calculation resulted in assumed financing debt of \$3.3 billion and core debt of \$1.5 billion.

As the debt ladder reflects, we repaid our March senior note and have one December maturity of approximately \$600 million. Our core net debt was \$700 million as of the end of Q1 which was consistent with our 2018 ending core net debt. Our core leverage at the end of the quarter was less than 2 times free cash flow, and thus we do not see any immediate requirement to reduce our core net debt levels. We have access to a number of capital sources as well as ample liquidity to handle upcoming maturities.

Another important element of our capital structure is our pension assets and liabilities. As of December 31, 2018, our net unfunded position was \$1.2 billion, which compared to \$1.4 billion as of the end of 2017 and \$2.2 billion as of the end of 2016, and it included approximately \$775 million of unfunded pension liabilities which by design do not get funded. From a funding perspective, we continue to expect contributions of approximately \$140 million in 2019 and believe we are well positioned to have a stable level of pension contributions over time.

We know there are questions around what our capital structure could look like if we have a transaction for our leasing business, and while it is premature for us to provide any specifics, we remain committed to maintaining a strong balance sheet which is important to our business.

I will now hand it back over to John to summarize before we move on to Q&A.

Giovanni Visentin, Vice Chairman & Chief Executive Officer, Xerox Corp.

Thanks, Bill. Last quarter we said we were executing against our strategic initiatives which would position us to accelerate our transformation in 2019. With our first quarter results, we are now in that position. Our brand, our people, the investments we are making and the improvements to our operation that come from Project Own It gives us confidence to raise our adjusted EPS guidance and maintain our revenue guidance for the year.

We will now open the line for questions. Jennifer?

Jennifer Horsley, Vice President-Investor Relations, Xerox Corp.

Thanks, John. Before we get to the Q&A with John and Bill, I will point out that we have in the appendix to our materials additional supplemental reconciliations and posted on our Xerox Investor Relations website a full set of earnings materials. Operator, please open the line for questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. [Operator Instructions] And our first question will come from Matt Cabral with Credit Suisse. Your line is now open.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Yeah, thank you. Bill just wanted to start off. Wondering if you could help us bridge the EPS guidance just between expected underlying operational improvement for the balance of the year versus the Q1 upside that you saw, particularly given the contribution from Fuji Xerox, and I know previously you hadn't included share repurchases in your full year expectations, just curious if that's part of the increase as well.

<A – Bill Osbourn – Xerox Corp.>: Hey, Matt. Thanks. Yeah, so a few points. First of all, as John and I stated on the call we're very pleased with the progress of Project Own It and what that's doing for us from an operational performance perspective. And just if you look at the first quarter we're up 140 basis points in adjusted operating margin year-over-year, so obviously we're comfortable with reiterating our guidance of 100 basis points to 150 basis points. But with that said, we also said in the prepared remarks that we had planned for investments during the year, we said during the Investor Day, and during fourth quarter earnings call \$0.32 and we're continuing those and we're looking to – based upon Q1 results to increase those throughout the year.

So the components are – you hit on them a little bit. From the share repurchase, the original guidance assumed more towards the latter part of the year, as you saw we purchased a little over \$100 million in Q1, and so that will have more of an impact that was originally anticipated, and then we added the additional \$300 million which will be as we go throughout the year we'll have to work through the first remaining \$200 million of the first \$300 million, and then the second \$300 million will be the latter part of the year. So both those will be positives. And then as I mentioned on the comments also, the Fuji Xerox, we expect to be less of a year-over-year favorable effect, they had some onetime accounting items in the prior year, but it really is a combination of the timing of the share repurchases and the benefits from "Project Own It".

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Got it. And then on post-sale you spent some time on those in the prepared remarks, but just wondering if you could dive a little bit deeper into what's driving some of the weakness that you are seeing, and just help us understand the initiatives you have in place to drive improvement and how we should think about the trajectory of post-sales for the balance of the year.

<A – Bill Osbourn – Xerox Corp.>: Yes. So in post-sale, a lot of our post-sale is bundled, as we've talked about, over 80% of our post-sale is related to bundled contracts, and we saw the underlying page volumes being consistent with prior quarters, which drives a lot of that bundled post-sale, but there is a portion that is more transactional in nature and can be lumpy, specifically unbundled supplies in the developing markets we had strong Q4, and it was not as strong as in Q1. We do expect that is a timing issue and we do expect to see that come back.

Another part of the post-sale, it is more transactional in nature is paper, it's not a high-margin area, but it's in the developing markets. We still sell paper, in particular Mexico was down year-over-year. That may not come back as much, but it is a low-margin item. And then the other item to call out from a transactional perspective in post-sale is the IT hardware reselling with several of our XBS cores do and that can be lumpy, and year-over-year there, that was a decline in Q1, but we do have line of sight to a specific transaction in Q2 and Q3 that will improve that. But, overall, as I said in my comments that we look throughout the year, we're confident based upon our updated forecast that the revenue constant currency decline that Q1 7% will be the worst and it will be improving throughout the remainder of the year, sequentially each quarter will be better than the next.

<A – Jennifer Horsley – Xerox Corp.>: Thanks Matt.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Thank you.

<A – Jennifer Horsley – Xerox Corp.>: Operator, can we have the next question?

Operator: Thank you. Our next question will come from the line of Ananda Baruah with Loop Capital. Your line is now open.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Hey guys. Good morning. I appreciate you taking the question. Hey, I'm going to start with revenue, but before I'll say congrats on a solid start to the year. So John, Bill, you sound pretty confident that you have your arms around sort of what led to the revenue weakness in the areas in which they were softer during the March quarter. Can you just speak a little bit more specifically to what gives you confidence that you have your arms around that? And then if you could also just give a little bit more detail into the areas in which – the specific areas into which your increasing the revenue investment? And then I have a follow up. Thanks.

<A – John Visentin – Xerox Corp.>: Hi, Ananda. Look, I would say if we think of what we've done in the last three, four months is we've implemented changes. We reduced layers. We increased spends. We reconfigured our go-to-market. We split DMO between the Americas. We transferred 28,000 accounts from U.S. enterprise to XBS. We consolidated our real estate. So we think of everything we talked about. We optimized our workforce. And while we don't ever want to minimize the risk of disruption that created by all these changes, but in each case we made these changes because we know what's best for Xerox in the long term. I personally met with over 300 of our managers, and I can tell you that while there was some disruption, they're all excited about the future because we're investing in the long term. You've heard me talk a little bit about our areas we're investing in, which is the services, the software, our equipment, our security, the Summit we've had, and in the future in innovation. So while we knew that this was going to cause some disruption in execution in the early part of the year, it still gives us confidence to increase EPS for the year, and it gives us confidence for our guidance, 5% guidance for the year, so.

<A – Bill Osbourn – Xerox Corp.>: Yeah, Ananda, I would just [indiscernible] (35:50) some specifics and some of these are programs that we already had in place in our \$0.32, and we're just expanding upon them and putting dollars behind them and some of them are additional programs. But we are building our supplies management team to increase the tax rates of supplies, so additional supplies management sales folks. As John mentioned in the software sales area, we're adding significant number of sales specialists just to deal with software sales that we didn't have before. We have specific targeted programs in the A4 and A3 area, specific targeted marketing programs in those areas, and in the E-commerce area, we're expanding what we're doing there and we have an SMB [ph] attack plan (36:34). There's a lot of different initiatives. The dollars are going into those initiatives that we talked about originally, the \$0.32 of EPS that we're reinvesting, and we're expanding upon those investments as we move throughout this year as the Q1 results allow us to do.

<Q – Ananda Baruah – Loop Capital Markets LLC>: That's really helpful context, both you guys. I appreciate that a lot. Quick follow-up. Just on the leasing business exploration, can you share a little bit about the dimensions upon which you're evaluating it? Is it just straight return on capital? Or are there some more subjective dimensions as well? And thanks, that's it for me.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Ananda, there's a few things we're looking at. One thing is – and I know we've talked about this, I've brought up on prior discussions that from a balance sheet perspective, just look at our leverage and the optics of that debt that is supported by these financing assets. I think it's – we get screened out by certain investors because of that. So that's one thing that you look at. If you look at our peers, most of our peers and competitors do not have an internal financing business anymore. We also look at it from a simplicity perspective. Is this a

core competency that we need to have internally versus externally? And actually, we'll look at it and say, do we believe we're getting the right value for it in a [ph] E-transaction (38:00)? And that clearly will be evaluated. But you look at just the optics of how it impacts our balance sheet and whether this needs to be a key competency that we have internally within the company.

<Q – Ananda Baruah – Loop Capital Markets LLC>: That's great.

<A – Jennifer Horsley – Xerox Corp.>: Thanks, Ananda. Operator, next question, please.

Operator: Thank you. Our next question will come from the line of Jim Suva with Citigroup. Your line is now open.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Hi. One clarification question, pretty easy, probably more for a CFO, then more of a strategy question for CEO, John. On the financial question, am I correct that in your prior guidance for the full year, you did not include any stock buyback, and now you are or am I just hearing things a little confused today? And then the more strategy – go ahead.

<A – John Visentin – Xerox Corp.>: Go ahead Jim.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: And then the strategy question was, the expense side looks like the Own It is having a pretty good material impact and getting great traction, but what are some examples of some revenue items you're doing different that Xerox potentially could improve upon? Because in the past it seems like the story has been again and again about revenues not coming in where you want, and we're already starting off the year that way. And it looks like the back half of the year will have to see a hockey stick improvement.

<A – Bill Osbourn – Xerox Corp.>: Yeah, Jim. So first of all, regarding the EPS guidance that we laid out that we were going to do at least \$300 million of share repurchase at the Q4 call and then on the Investor Day, but we specifically said that as far as our guidance for the year that that was weighted towards the back half of the year or the latter part of the year would have limited impact to the guidance numbers that we were providing. To the extent that was moved up to earlier in the year which we've been doing as is demonstrated by the \$100 million or so repurchase in Q1, that obviously would have an increasing impact on our EPS.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Very clear. Got it. I got it. Thanks.

<A – John Visentin – Xerox Corp.>: And, Jim, we're doing a lot. So I talked a little bit about what we've done in terms of reducing layers, moving organizations, simplifying our business. And specifically, what we've done is while all the organization has gone on in the last quarter, we've also invested in areas. So in competitive win back programs, we've invested heavily in sales organizations, in tools, in offerings. If you think of the offerings that we've announced whether it is our security offerings, whether it is our services offerings that we're focused on, all of that is going on in the last month and ready for prime time, and all our teams are being trained and ready to go on that. And we're starting to see some positive out of it. I would tell you that, yeah, while first quarter – back to first quarter, I never take disruption likely, but we knew we the decision that we were going to do a lot of the changes early. The teams, we got great teams, great leadership team that I've personally met with that have accepted these changes, now we're off and running. So we're confident in maintaining our 5% guidance.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you.

<A – Jennifer Horsley – Xerox Corp.>: Great. Thanks, Jim. Operator, next question, please?

Operator: Thank you. Our next question will come from the line of Paul Coster with JPMorgan. Your line is now open.

<Q – Paul Coster – JPMorgan Securities LLC>: [Technical Difficulty] (41:40-41:52) difference between the two regions. Is that the case? And is restructuring – I mean is the change in the sales team now done, such that you can get to this 5% trajectory over the course of the year?

<A – John Visentin – Xerox Corp.>: Paul, we got the second half of your question. The first part you were...

<A – Bill Osbourn – Xerox Corp.>: Yeah. You'll have to go back. We're having a bad connection on the first part. I think it was something about the organizational changes in the Americas, et cetera. But the second part regarding the disruption and one key point to look at and thinking about the degree, we did know that we are doing a lot, there were things we had to do from a restructuring perspective, and we said let's get what we can get done as soon as possible. And if you just look at our restructuring dollars spent in Q1 as a percent of the full year, that's kind of an indicator that we're targeting still the \$225 million or so of full year restructuring. We did \$112 million in Q1. So a biggest part of the disruption we do believe is now and is behind us. It's Q4, Q1. There's changes still clearly to be made that we'll be working on throughout the year, but we do believe that the biggest part of the disruption has occurred already.

<A – John Visentin – Xerox Corp.>: Yeah.

<Q – Paul Coster – JPMorgan Securities LLC>: Okay. You did a great job of interpreting my garbled commentary there. But the other part was really the difference between Europe and North America. It looks like the disruption may have been greater in North America than in Europe. Is Europe yet to come?

<A – John Visentin – Xerox Corp.>: Well, I would say that Europe went through changes over the last year. And if you think of what we've done is we've taken areas from Europe and transferred it to North America like LATAM. But having spoken to the leaders and I'll be in Europe in the following month or so and having spoken with all the leaders, everybody is excited about the changes we're making and excited about moving forward so.

<Q – Paul Coster – JPMorgan Securities LLC>: Okay. And one last question, you've chosen to use some of your cash for repurchasing shares instead of making tuck-in acquisitions that might accelerate the turnaround in revenues. Can you just comment on that, John?

<A – John Visentin – Xerox Corp.>: Yeah. Look we're never going to comment on the potential targets, but we're focused on building a deep M&A pipeline that will support our revenue roadmap. But that pipeline will include tuck-in acquisitions that'll help us grow our SMB market and also acquisitions like we just did in innovation like Vader, a small 3D metal print company that I spoke about earlier. But in each case, Paul, we're going to take a disciplined approach on the investments that will drive the highest IRR. So yes, we're focused on...

<A – Bill Osbourn – Xerox Corp.>: Yeah. And just to remind you, if you look at our full year capital allocation, there was a significant unallocated \$450 million to \$550 million, the incremental \$300 million share repurchase still leaves for the tuck-ins. As John mentioned, we evaluate those on a case-by-case basis, and what type of IRR they're providing us.

<Q – Paul Coster – JPMorgan Securities LLC>: Okay. Thank you.

<A – Jennifer Horsley – Xerox Corp.>: Thanks, Paul. Operator, next question, please.

Operator: Thank you. Our next question will come from the line of Shannon Cross with Cross Research. Your line is now open.

<Q – Shannon Cross – Cross Research LLC>: Thank you. I just wanted to go back to the question about acquisitions, and I'm just curious. I mean [ph] ESI is in a go-shop (45:20) right now, clearly from our knowledge of the industry, it would make a lot of sense to layer on. I realize you're focused on share repurchase and you've got a strong dividend. But I think John, how do you think about if you're going to get to flat revenue in a couple of years, and then some growth, is that something you can do with the existing technologies you have whether it's at [ph] Park (45:48) or within Xerox? Or is it something where you really think you might need to have a bit bigger of an acquisition?

<A – John Visentin – Xerox Corp.>: Yeah. Shannon, I would reiterate what we said at the Investor Conference where we're going to focus on innovation, and we've decided what the four areas of innovation are. And then even inside of the areas that we're in today, we'll look at areas like 3D, and digital packaging and how do we disrupt it, both in a Xerox-inside attitude, or in us disrupting the whole industry. On M&A or potential targets, we're not going to comment publicly on it. But like I said earlier, we're taking a disciplined approach, and the investment needs to drive IRR for us and for the strength of Xerox in the future.

<Q – Shannon Cross – Cross Research LLC>: Okay. Thank you. And then I just – because obviously there's been a lot of discussion around the leasing business and potential for what might happen to the proceeds. Can you just define for investors what a strong balance sheet means to you? I think you gave some metrics at the Analyst Day, but if you can say at this point where you're at in terms of your definition of the strong balance sheet? Thank you.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Hey, Shannon, so a couple things. First of all, and I say this before many times on these calls that we believe that we're – currently our balance sheet is investment grade. We were downgraded towards the end of the year, not because of the state of our balance sheet but because of requirement of our top-line being at least flat to growth. But we currently believe we're investment grade. We have a goal of getting back as a company to investment grade. Our historical actions have been those of supporting a strong balance sheet. We've paid down debt over time, we funded our pension plan. And it's important to us just from whether it's attracting or retaining significant customers, whether they're in the government or elsewhere, they have a strong balance sheet. Not going to put a specific number on it, but just know that we were currently investment-grade quality balance sheet, although we were downgraded obviously below that because of our top-line performance, and we have a goal of getting back there.

<Q – Shannon Cross – Cross Research LLC>: Great. Thank you very much.

<A – Jennifer Horsley – Xerox Corp.>: Thanks, Shannon. Operator, we have time for one last question.

Operator: Thank you. Our last question will come from Katy Huberty with Morgan Stanley. Your line is now open.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: Thank you. Good morning. As you pointed out, supplies revenue was particularly weak this quarterly, despite a fairly constructive business environment and stable page volume trends. Some of your competitors have also seen weakness in supplies. So, wondering whether you think that third-party competition is an issue at all in the business, and if not, if you can talk a bit more about what you think drove the pull-in of transactional deals into the fourth quarter.

<A – Bill Osbourn – Xerox Corp.>: Yeah. So thanks Katy. So you kind of hit on a lot of the points there, but from a supplies perspective, the majority are most of ours and we believe that this differentiates us from a lot of our competitors. Our bundled contracts is tied to underlying page volumes, et cetera., and we've seen stability although declining, but at consistent rates in those page volumes in recent periods. And it was more the lumpiness of specifically the unbundled supplies to smaller portion for us, than a lot of our peers in the developing markets. From time to time there are incentives to pull things, to make sales at certain periods, and Q4 was strong in supplies. It was up a couple of percent in the unbundled supplies area in Q4, and just looking at the timing of those sales, going forward we believe that they will be coming back in future quarters.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: Okay. And then just as a follow-up, if I assume \$100 million a quarter of share buyback in the first half, \$200 million a quarter in the back half, it could be anywhere from \$0.10 to \$0.15 of EPS impact for the full year versus not assuming much last quarter. Is that a fair characteristic of how much you've added to the EPS outlook from share buyback?

<A – Bill Osbourn – Xerox Corp.>: So share repurchase is a part of the guidance and the increase, and also, the expanding of the range sort of goes to the timing of the share repurchase. We're in a \$0.10 range to a \$0.15 range. But naturally you would get the – the earlier you purchase, the higher, the later – for that range, we're assuming that the incremental \$300 million would be more in the latter part of the year.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: Okay. Thank you.

<A – Jennifer Horsley – Xerox Corp.>: Thanks, Katy. John, anything to wrap up?

Giovanni Visentin, Vice Chairman & Chief Executive Officer, Xerox Corp.

No, thank you very much. Look our transformation initiatives are yielding results, giving us confidence to raise our full year earnings guidance while maintaining revenue guidance for the year. Thank you all for joining us today.

Operator: Ladies and gentlemen, thank you for your participation on today's conference. This does conclude today's program, and we may all disconnect. Everybody, have a wonderful day.

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