

Xerox Reports Third-Quarter 2018 Results

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

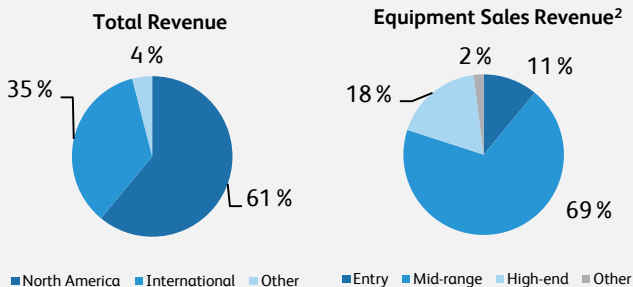
Highlights

- Strong Cash Flow in the quarter, increasing FCF guidance
- Returned 75% of YTD FCF to shareholders through dividends and share repurchase
- Adjusted Operating Margin expansion

Third-Quarter Results

Revenue \$2.4B, down 5.8% or down 4.7% CC¹

- Equipment \$0.5B, down 3.8% or down 2.7% CC¹
- Post Sale \$1.8B, down 6.4% or down 5.2% CC¹; 78% of Total Revenue



- **Gross Margin:** 40.1%, flat YOY
- **Operating Margin – adjusted¹:** 13.1%, up 1.0 pt YOY, including 60 bps impact from higher equity income
- **Equity Income:** \$43M, up \$13M YOY
- **Tax Rate – adjusted¹:** 24.5% vs. 19.3% in Q3 '17
- **GAAP EPS:** \$0.34, down 33 cents YOY, including (37) cents or \$(95)M of a non-cash charge related to a change in a provisional estimate for the Tax Act.
- **EPS – adjusted¹:** \$0.85, down 4 cents YOY, including (5) cents from a higher tax rate.
- **Operating Cash Flow (OCF):** Q3 \$274M; YTD \$725M
- **Free Cash Flow (FCF)¹:** Q3 \$251M; YTD \$652M
- **Ending debt:** \$5.2B (\$3.4B financing & \$1.8B core),
- **Ending cash balance:** \$1.2B

Key Metrics

MDS revenue down 0.6%, up 0.9% CC¹ YOY

Installs – YOY % change

- Entry A4 MFPs³ color down 8%, B&W up 21%
- Mid-Range color⁴ up 8%, B&W up 19%
- High-End color⁴ down 17%, B&W down 3%

Financial Expectations

- Increasing full-year guidance: OCF of \$1.0B-\$1.1B and FCF of \$900M-\$1.0B
- Increasing share repurchase expectations for 2018 to \$700M
- Will provide an update on our strategy and longer-term financial expectations at an analyst day in early February 2019

(1) Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures contained in our third-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 41%, B&W down 4%. (4) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales (DFEs); including DFEs, Mid-range color was up 8%, and High-end color down 18%.

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

