



Fourth-Quarter 2014 Earnings Presentation

Non-GAAP Financial Measures

January 30, 2015



Non-GAAP Financial Measures

“Adjusted Earnings Measures”: To better understand the trends in our business, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of certain items as well as their related income tax effects.

- Net income and Earnings per share (“EPS”)
- Effective tax rate

In 2014 and 2013, we adjusted for the amortization of intangible assets. The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

We also calculate and utilize an Operating income and margin earnings measure by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the amortization of intangible assets, operating income and margin also exclude Other expenses, net as well as Restructuring and asset impairment charges. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees pursuant to formal restructuring and workforce reduction plans. Such charges are expected to yield future benefits and savings with respect to our operational performance. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

“Constant Currency”: To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as “constant currency.” Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Non-GAAP Financial Measures

“Free Cash Flow”: To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It also is used to measure our yield on market capitalization. A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth in the slide entitled “2015 Guidance”.

“Underlying Cash Flow”: To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations for the cash flow impacts from our sales of finance receivables. The sale of finance receivables has a significant impact on operating cash flows in the period of sale as well as on collections in subsequent periods due to the long term nature of these receivables. In addition to providing a better understanding of the underlying trends in cash flows from operations, management believes this measure gives investors an additional perspective on comparing and analyzing the year-over-year changes in our cash flows as well as the impacts of these sales on cash flows in the period. A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth in the slide entitled “Underlying Cash Flows”.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods’ results against the corresponding prior periods’ results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

Unless otherwise noted, reconciliations of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following slides.

Q4 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013	
	Net Income	EPS	Net Income	EPS
Reported⁽¹⁾	\$ 305	\$ 0.26	\$ 297	\$ 0.23
<u>Adjustments:</u>				
Amortization of intangible assets	52	0.05	47	0.04
Adjusted	\$ 357	\$ 0.31	\$ 344	\$ 0.27
Weighted average shares for adjusted EPS ⁽²⁾		<u>1,171</u>		<u>1,261</u>
Fully diluted shares at end of period ⁽³⁾		<u>1,159</u>		

(1) Net Income and EPS from continuing operations attributable to Xerox.

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend was excluded.

(3) Represents common shares outstanding at December 31, 2014 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the fourth quarter 2014.

FY GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Net Income	EPS	Net Income	EPS
Reported⁽¹⁾	\$ 1,084	\$ 0.90	\$ 1,139	\$ 0.89
<u>Adjustments:</u>				
Amortization of intangible assets	196	0.17	189	0.15
Adjusted	\$ 1,280	\$ 1.07	\$ 1,328	\$ 1.04
Weighted average shares for adjusted EPS ⁽²⁾		<u>1,199</u>		<u>1,274</u>
Fully diluted shares at end of period ⁽³⁾		<u>1,159</u>		

(1) Net Income and EPS from continuing operations attributable to Xerox.

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend was excluded.

(3) Represents common shares outstanding at December 31, 2014 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the fourth quarter 2014.

GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share Guidance	
	Q1 2015	FY 2015
GAAP EPS from Continuing Operations	\$0.16 - \$0.18	\$0.83 - \$0.89
<u>Adjustments:</u>		
Amortization of intangible assets	0.04	0.17
Adjusted EPS	<u>\$0.20 - \$0.22</u>	<u>\$1.00 - \$1.06</u>

Note: GAAP and Adjusted EPS guidance includes anticipated restructuring

Q4 Adjusted Operating Income/Margin

(in millions)	Three Months Ended December 31, 2014			Three Months Ended December 31, 2013		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported pre-tax income⁽¹⁾	\$ 348	\$ 5,033	6.9%	\$ 326	\$ 5,207	6.3%
<u>Adjustments:</u>						
Amortization of intangible assets	83			76		
Xerox restructuring charge	36			55		
Other expenses, net	57			33		
Adjusted Operating	\$ 524	\$ 5,033	10.4%	\$ 490	\$ 5,207	9.4%

(1) Profit and Revenue from continuing operations attributable to Xerox.

FY Adjusted Operating Income/Margin

(in millions)	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported pre-tax income⁽¹⁾	\$ 1,206	\$ 19,540	6.2%	\$ 1,243	\$ 20,006	6.2%
Adjustments:						
Amortization of intangible assets	315			305		
Xerox restructuring charge	128			115		
Other expenses, net	232			146		
Adjusted Operating	\$ 1,881	\$ 19,540	9.6%	\$ 1,809	\$ 20,006	9.0%

(1) Profit and Revenue from continuing operations attributable to Xerox.

Q4 and FY Adjusted Other, net

(in millions)	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
Other expenses, net - Reported	\$ 57	\$ 33
Adjustments:		
Xerox restructuring charge	36	55
Net income attributable to noncontrolling interests	6	5
Other expenses, net - Adjusted	\$ 99	\$ 93

(in millions)	Year Ended December 31, 2014	Year Ended December 31, 2013
Other expenses, net - Reported	\$ 232	\$ 146
Adjustments:		
Xerox restructuring charge	128	115
Net income attributable to noncontrolling interests	23	20
Other expenses, net - Adjusted	\$ 383	\$ 281

Q4 and FY Adjusted Effective Tax Rate

(in millions)	Three Months Ended December 31, 2014			Three Months Ended December 31, 2013		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
	Reported⁽¹⁾	\$ 348	\$ 78	22.4%	\$ 326	\$ 67
Adjustments:						
Amortization of intangible assets	83	31		76	29	
Adjusted	\$ 431	\$ 109	25.3%	\$ 402	\$ 96	23.9%

(in millions)	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
	Reported⁽¹⁾	\$ 1,206	\$ 259	21.5%	\$ 1,243	\$ 253
Adjustments:						
Amortization of intangible assets	315	119		305	116	
Adjusted	\$ 1,521	\$ 378	24.9%	\$ 1,548	\$ 369	23.8%

(1) Pre-Tax Income and Income Tax Expense from continuing operations attributable to Xerox.

Q4 and FY Services Revenue Breakdown

(in millions)	Three Months Ended December 31,				Year Ended December 31,			
	2014	2013	Change	Revenue CC Change	2014	2013	Change	Revenue CC Change
Business Processing Outsourcing	\$ 1,877	\$ 1,824	3%	4%	\$ 7,304	\$ 7,244	1%	1%
Document Outsourcing	874	889	(2%)	1%	3,388	3,337	2%	2%
Less: Intra-Segment Eliminations	(26)	(27)	(4%)	(4%)	(108)	(102)	6%	6%
Total Revenue - Services	\$ 2,725	\$ 2,686	1%	3%	\$ 10,584	\$ 10,479	1%	1%

Note: The above table has been revised to reflect the reclassification of the ITO business to discontinued operations. Additionally, 2013 Business Process Outsourcing (BPO) revenues have been revised to conform to the 2014 presentation of revenues.

Underlying Cash Flow

(in millions)	2014					2013				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Operating Cash Flow (OCF)	\$286	\$325	\$595	\$857	\$2,063	(\$87)	\$533	\$961	\$968	\$2,375
Adjustments:										
Cash From F/R Sales	-	-	-	-	-	-	-	(\$384)	(\$247)	(\$631)
Impact from prior F/R Sales ¹	\$123	\$112	\$102	\$96	\$433	\$89	\$58	\$68	\$119	\$334
Underlying OCF²	\$409	\$437	\$697	\$953	\$2,496	\$2	\$591	\$645	\$840	\$2,078

¹Represents cash that would have been collected had we not sold finance receivables. Net of collections on beneficial interest.

²Underlying OCF is reported OCF adjusted for the impacts of Finance Receivable sales

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