

Xerox Reports Third Quarter 2016 Results

Third-Quarter Overview

- **EPS:** adjusted¹ EPS of \$0.27/share, GAAP EPS from continuing operations of \$0.17/share
- **Total revenue** of \$4.2 billion; down 3% YOY or 4% adjusted CC*
 - **Services:** up 1% YOY or down 2% adjusted CC*
 - **Document Technology:** down 9% YOY or 7% CC*
 - **Annuity revenue** of \$3.6 billion; down 2% YOY or 4% adjusted CC*; 85% of total
 - **Equipment revenue** of \$613 million; down 8% YOY or 7% CC*; 15% of total
- **Operating margin** of 9.2%; down 0.2 pts YOY
- **Segment margins:** Services 9.4%, Technology 13.1%

Balance Sheet/Cash

- **Operating Cash Flow** of \$370 million, includes \$60 million of HE settlement payments and Separation payments
- **CAPEX** of \$73 million
- **Adj. avg. fully diluted share count**²: 1,052 million
- **Ending fully diluted share count**²: 1,052 million
- **Ending debt** of \$7.4 billion
- **Ending cash balance** of \$1.4 billion

Guidance

- **Narrowing FY earnings range and maintaining cash flow guidance**
- **Revenue: FY 2016 down 2 to 4% CC***
- **EPS:** **Q4 2016 adjusted**¹: \$0.32 - \$0.35
 - **FY 2016 adjusted**¹: \$1.11 - \$1.14
 - **GAAP (from Continuing Operations):**
Q4 2016: \$0.11 - \$0.14; FY 2016: \$0.45 - \$0.48
- **Adjusted¹ tax rate:** Q4 25% - 27%; FY 23 - 25%
- **FY Operating Cash Flow:** \$950 million - \$1.2 billion
- **FY CAPEX:** ~\$350 million
- **FY Free Cash Flow:** \$600 - \$850 million
- **FY Dividends:** ~\$350 million
- **FY Acquisitions:** ~\$30 - \$50 million
- **Balance of Free Cash Flow to optimize capital structures of new companies**

* Constant currency (CC)

Note: Prior year reported results included the Health Enterprise related charge of \$389 million (including a \$116 million reduction to revenue). Where appropriate, the impact of this charge has been excluded when making comparisons of the current quarter's results against the prior year.

(1) Adjustments include amortization of intangible assets, restructuring and related costs, non-service retirement related costs and separation costs.

(2) Average shares for the calculations of adjusted EPS for third quarter 2016 include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million is excluded. Outstanding represents common shares outstanding as of September 30th, 2015 plus potential dilutive common and preferred shares (includes shares associated with our Series A convertible preferred stock).

(3) Installs include Document Technology and Services segments.

(4) High-end installs exclude digital front end sales.

(5) Entry installs exclude OEM sales, including OEM sales Color A4 up 4%, B&W A4 up 6%

Please see our forward looking statements and non-GAAP reconciliation contained in our third quarter 2016 earnings release posted on our website at <http://www.xerox.com/investor>

Services Segment

- **Q3 revenue** of \$2.4 billion; up 1% YOY or down 2% adjusted CC*
- **Services 57% of total company revenue**
- **Revenue mix** of 67% BPO, 33% DO
- **Segment margin** 9.4%; up 1.6 pts YOY adjusted
- **Year-over-year revenue:**
 - Business Process Outsourcing (BPO) up 3% or down 4% adjusted CC*
 - Document Outsourcing (DO) down 1% or up 1% CC*
- **Metrics:**
 - **Signings of \$2.2 billion TCV**
 - Up 17% CC* YOY and up 6% CC* TTM
 - **Renewal rate (BPO and DO) of 86%**

Document Technology Segment

- **Q3 revenue** of \$1.6 billion; down 9% YOY or 7% CC*
 - Revenue decline within FY target range
 - Annuity revenue down 6% YOY or 5% CC*, 72% of revenue
 - Equipment revenue down 14% YOY or 13% CC, 28% of revenue
- Including DO, printing revenue down 5% CC*
- **Segment margin** 13.1%; down 0.8 pts YOY, up 0.5 pts sequentially
- **Revenue mix** of 19% entry, 57% mid-range, 24% high-end
- **Install³ growth:**
 - High-End⁴ color up 6%, B&W down 1%
 - Mid-Range color up 7%, B&W down 25%
 - Entry A4 MFDs⁵ color up 16%, B&W down 12%

Separation Progress

- **Completed critical separation milestones:**
 - Filed Form 10 amendments with Conduent's pro-forma capitalization and historical financials
 - Anticipate high non-investment grade credit rating for Conduent and investment grade rating for Xerox, in-line with management expectations
 - Appointed majority of directors and executive officers for Conduent
 - Investor events and equity roadshow planned for early December
- **Strategic transformation program on-track**

