

Xerox Financial Model
(unaudited)



(in \$ millions, except per-share data)

	2015	2016				2017					2018			
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD
Revenues														
Sales	4,674	1,003	1,126	1,057	1,133	4,319	936	1,010	981	1,146	4,073	933	1,017	1,950
Services, maintenance and rentals	6,445	1,529	1,585	1,489	1,524	6,127	1,442	1,483	1,443	1,530	5,898	1,431	1,425	2,856
Financing	346	83	82	83	77	325	76	74	73	71	294	71	68	139
Total Revenues	11,465	2,615	2,793	2,629	2,734	10,771	2,454	2,567	2,497	2,747	10,265	2,435	2,510	4,945
Cost of Revenue														
Cost of sales	2,925	613	696	647	700	2,656	565	619	593	710	2,487	563	622	1,185
Cost of services, maintenance and rentals	3,789	935	942	902	903	3,682	881	872	870	895	3,518	868	854	1,722
Cost of financing	130	33	32	32	31	128	33	33	33	34	133	34	33	67
Total Cost of Revenue	6,844	1,581	1,670	1,581	1,634	6,466	1,479	1,524	1,496	1,639	6,138	1,465	1,509	2,974
Gross Profit														
Sales gross profit	1,749	390	430	410	433	1,663	371	391	388	436	1,586	370	395	765
Services, maintenance and rentals gross profit	2,656	594	643	587	621	2,445	561	611	573	635	2,380	563	571	1,134
Financing gross profit	216	50	50	51	46	197	43	41	40	37	161	37	35	72
Gross Profit	4,621	1,034	1,123	1,048	1,100	4,305	975	1,043	1,001	1,108	4,127	970	1,001	1,971
Research, development & engineering	500	121	115	114	113	463	111	102	105	106	424	100	101	201
Bad Debt Expense	49	12	10	13	2	37	13	9	8	3	33	13	12	25
Selling, administrative and general exp. (Excl Bad Debts)	2,767	668	668	635	628	2,599	621	617	622	633	2,493	615	612	1,227
Total Selling, administrative and general exp.	2,816	680	678	648	630	2,636	634	626	630	636	2,526	628	624	1,252
Non-financing interest expense	216	54	42	42	43	181	36	24	29	30	119	29	27	56
Aggregate Exchange losses / (gains)	2	4	(1)	4	6	13	3	1	-	-	4	(2)	1	(1)
All other, net	77	31	36	35	25	127	75	43	23	65	206	3	11	14
Total Other, net	295	89	77	81	74	321	114	68	52	95	329	30	39	69
Restructuring and related costs	26	98	46	25	90	259	118	39	35	24	216	28	34	62
Amortization of intangible assets	60	14	16	14	14	58	14	15	12	12	53	12	12	24
Transaction and related costs, net	-	-	-	-	-	-	-	-	-	9	9	38	58	96
Total Costs and Expenses	10,541	2,583	2,602	2,463	2,555	10,203	2,470	2,374	2,330	2,521	9,695	2,301	2,377	4,678
Income (Loss) before Income Taxes & Equity Income	924	32	191	166	179	568	(16)	193	167	226	570	134	133	267
Income Taxes	193	(2)	18	28	18	62	(24)	43	18	444	481	40	38	78
Equity in net income of unconsolidated affiliates	109	34	26	40	27	127	40	20	30	25	115	(68)	19	(49)
Income from Continuing Operations	840	68	199	178	188	633	48	170	179	(193)	204	26	114	140
(Loss) Income from discontinued operations, net of tax	(374)	(35)	(38)	8	(1,028)	(1,093)	(6)	-	3	6	3	-	-	-
Net Income (Loss)	466	33	161	186	(840)	(460)	42	170	182	(187)	207	26	114	140
Less: Net Income attributable to Noncontrolling Interests	18	2	3	3	3	11	2	4	3	3	12	3	2	5
Net Income (Loss) Attributable to Xerox	448	31	158	183	(843)	(471)	40	166	179	(190)	195	23	112	135
Amounts Attributable to Xerox														
Net income from continuing operations	822	66	196	175	185	622	46	166	176	(196)	192	23	112	135
(Loss) Income from discontinued operations, net of tax	(374)	(35)	(38)	8	(1,028)	(1,093)	(6)	-	3	6	3	-	-	-
Net Income (Loss) Attributable to Xerox	448	31	158	183	(843)	(471)	40	166	179	(190)	195	23	112	135

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		2015	2016				2017					2018			
		FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD
Preferred Dividends/	- Basic	24	6	6	6	6	24	4	3	4	3	14	4	3	7
Other	- Diluted *	24	6	6	6	6	24	4	-	-	3	14	4	3	7
Weighted Average Shares	- Basic	266	253	253	253	254	253	254	254	255	255	254	255	255	255
	- Diluted *	269	255	256	256	257	256	256	263	263	255	257	257	258	258
Earnings Per Share	- Basic:														
	Continuing operations	3.00	0.24	0.75	0.66	0.71	2.36	0.17	0.64	0.68	(0.78)	0.70	0.08	0.42	0.50
	Discontinued operations	(1.41)	(0.14)	(0.15)	0.03	(4.06)	(4.31)	(0.03)	-	0.01	0.02	0.01	-	-	-
	<u>Total Basic Earnings (Loss) per Share</u>	<u>1.59</u>	<u>0.10</u>	<u>0.60</u>	<u>0.69</u>	<u>(3.35)</u>	<u>(1.95)</u>	<u>0.14</u>	<u>0.64</u>	<u>0.69</u>	<u>(0.76)</u>	<u>0.71</u>	<u>0.08</u>	<u>0.42</u>	<u>0.50</u>
	- Diluted:														
	Continuing operations	2.97	0.23	0.75	0.66	0.70	2.33	0.16	0.63	0.67	(0.78)	0.70	0.08	0.42	0.50
	Discontinued operations	(1.39)	(0.13)	(0.15)	0.03	(4.00)	(4.26)	(0.02)	-	0.01	0.02	0.01	-	-	-
	<u>Total Diluted Earnings (Loss) per Share</u>	<u>1.58</u>	<u>0.10</u>	<u>0.60</u>	<u>0.69</u>	<u>(3.30)</u>	<u>(1.93)</u>	<u>0.14</u>	<u>0.63</u>	<u>0.68</u>	<u>(0.76)</u>	<u>0.71</u>	<u>0.08</u>	<u>0.42</u>	<u>0.50</u>
Key Ratios - GAAP:															
Gross Margins	- Sales	37.4%	38.9%	38.2%	38.8%	38.2%	38.5%	39.6%	38.7%	39.6%	38.0%	38.9%	39.7%	38.8%	39.2%
	- Services/Maintenance/Rentals	41.2%	38.8%	40.6%	39.4%	40.7%	39.9%	38.9%	41.2%	39.7%	41.5%	40.4%	39.3%	40.1%	39.7%
	- Financing	62.4%	60.2%	61.0%	61.4%	59.7%	60.6%	56.6%	55.4%	54.8%	52.1%	54.8%	52.1%	51.5%	51.8%
	- Total	40.3%	39.5%	40.2%	39.9%	40.2%	40.0%	39.7%	40.6%	40.1%	40.3%	40.2%	39.8%	39.9%	39.9%
SAG as a % of Revenue		24.6%	26.0%	24.3%	24.6%	23.0%	24.5%	25.8%	24.4%	25.2%	23.2%	24.6%	25.8%	24.9%	25.3%
Tax Rate		20.9%	-6.3%	9.4%	16.9%	10.1%	10.9%	150.0%	22.3%	10.8%	196.5%	84.4%	29.9%	28.6%	29.2%
Ending Xerox Employment		40,000	NA	NA	NA	NA	37,600	37,200	36,900	36,100	35,300	35,300	35,000	34,300	34,300

*For those periods that exclude the preferred stock dividend the average shares for the calculations of diluted EPS include 7 million shares associated with our Series A or Series B convertible preferred stock.

**Xerox Financial Model - Non-GAAP basis
(unaudited)**



Non-GAAP basis is adjusted to exclude restructuring and related costs, amortization of intangible assets, transaction and related costs, non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section of our Quarterly Reports on Form 10-Q and our Annual Report on Form 10-K

(in \$ millions, except per-share data)

	2015	2016					2017					2018		
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD
Revenues														
Sales	4,674	1,003	1,126	1,057	1,133	4,319	936	1,010	981	1,146	4,073	933	1,017	1,950
Services, maintenance and rentals	6,445	1,529	1,585	1,489	1,524	6,127	1,442	1,483	1,443	1,530	5,898	1,431	1,425	2,856
Financing	346	83	82	83	77	325	76	74	73	71	294	71	68	139
Total Revenues	11,465	2,615	2,793	2,629	2,734	10,771	2,454	2,567	2,497	2,747	10,265	2,435	2,510	4,945
Cost of Revenue														
Cost of sales	2,925	613	696	647	700	2,656	565	619	593	710	2,487	563	622	1,185
Cost of services, maintenance and rentals	3,789	935	942	902	903	3,682	881	872	870	895	3,518	868	854	1,722
Cost of financing	130	33	32	32	31	128	33	33	33	34	133	34	33	67
Total Cost of Revenue	6,844	1,581	1,670	1,581	1,634	6,466	1,479	1,524	1,496	1,639	6,138	1,465	1,509	2,974
Gross Profit														
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Financing gross profit	216	50	50	51	46	197	43	41	40	37	161	37	35	72
Gross Profit	4,621	1,034	1,123	1,048	1,100	4,305	975	1,043	1,001	1,108	4,127	970	1,001	1,971
Research, development & engineering	500	121	115	114	113	463	111	102	105	106	424	100	101	201
Bad Debt Expense	49	12	10	13	2	37	13	9	8	3	33	13	12	25
Selling, administrative and general exp. (Excl Bad Debts)	2,767	668	668	635	628	2,599	621	617	622	633	2,493	615	612	1,227
Total Selling, administrative and general exp.	2,816	680	678	648	630	2,636	634	626	630	636	2,526	628	624	1,252
Non-financing interest expense	216	54	42	42	43	181	36	24	29	30	119	29	27	56
Aggregate Exchange losses / (gains)	2	4	(1)	4	6	13	3	1	-	-	4	(2)	1	(1)
All other, net	(23)	(13)	7	4	8	6	2	9	(12)	(1)	(2)	(22)	(14)	(36)
Total Other, net	195	45	48	50	57	200	41	34	17	29	121	5	14	19
Total Costs and Expenses	10,355	2,427	2,511	2,393	2,434	9,765	2,265	2,286	2,248	2,410	9,209	2,198	2,248	4,446
Income before Income Taxes & Equity Income	1,110	188	282	236	300	1,006	189	281	249	337	1,056	237	262	499
Income Taxes	263	39	52	54	62	207	51	76	48	88	263	67	70	137
Equity in Net Income of Unconsol. Affil.	113	34	27	42	27	130	40	23	36	26	125	11	23	34
Income from Continuing Operations	960	183	257	224	265	929	178	228	237	275	918	181	215	396
Less: Net Income attributable to Noncontrolling Interests	18	2	3	3	3	11	2	4	3	3	12	3	2	5
Net Income from Continuing Operations Attributable to Xerox	942	181	254	221	262	918	176	224	234	272	906	178	213	391
Earnings Per Share														
Continuing Operations:														
Preferred Dividends - Adjusted EPS *	(24)	(6)	-	(6)	-	(24)	-	-	-	-	-	-	-	-
Adjusted Earnings per Share	3.41	0.68	0.97	0.84	1.00	3.49	0.67	0.86	0.89	1.03	3.45	0.68	0.80	1.48
Adjusted Weighted Average Shares *	269	255	262	256	264	256	263	263	263	264	263	264	265	264

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(in \$ millions, except per-share data)

	2015	2016					2017					2018		
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD
Key Ratios - Adjusted:														
Gross Margins														
- Sales	37.4%	38.9%	38.2%	38.8%	38.2%	38.5%	39.6%	38.7%	39.6%	38.0%	38.9%	39.7%	38.8%	39.2%
- Services/Maintenance/Rentals	41.2%	38.8%	40.6%	39.4%	40.7%	39.9%	38.9%	41.2%	39.7%	41.5%	40.4%	39.3%	40.1%	39.7%
- Financing	62.4%	60.2%	61.0%	61.4%	59.7%	60.6%	56.6%	55.4%	54.8%	52.1%	54.8%	52.1%	51.5%	51.8%
- Total	40.3%	39.5%	40.2%	39.9%	40.2%	40.0%	39.7%	40.6%	40.1%	40.3%	40.2%	39.8%	39.9%	39.9%
Adjusted Operating Margin	12.4%	10.2%	12.8%	12.5%	14.0%	12.4%	11.0%	13.2%	12.1%	14.3%	12.7%	10.4%	11.9%	11.2%
SAG as a % of Revenue	24.6%	26.0%	24.3%	24.6%	23.0%	24.5%	25.8%	24.4%	25.2%	23.2%	24.6%	25.8%	24.9%	25.3%
Adjusted Effective Tax Rate	23.7%	20.7%	18.4%	22.9%	20.7%	20.6%	27.0%	27.0%	19.3%	26.1%	24.9%	28.3%	26.7%	27.5%
Non-GAAP Adjustments:														
Restructuring and related costs	26	98	46	25	90	259	118	39	35	24	216	28	34	62
Amortization of intangible assets	60	14	16	14	14	58	14	15	12	12	53	12	12	24
Non-service retirement-related costs	100	44	29	31	17	121	60	34	35	59	188	25	25	50
Transaction and related costs, net	-	-	-	-	-	-	-	-	-	9	9	38	58	96
Loss on early extinguishment of debt	-	-	-	-	-	-	13	-	-	7	20	-	-	-
Restructuring and other charges - Fuji Xerox	4	-	1	2	-	3	-	3	6	1	10	79	4	83
Remeasurement of unrecognized tax positions	-	-	-	-	-	-	(16)	-	-	-	(16)	-	-	-
Tax on adjusted items	(70)	(41)	(34)	(26)	(44)	(145)	(59)	(33)	(30)	(44)	(166)	(27)	(32)	(59)
US Tax Act	-	-	-	-	-	-	-	-	-	400	400	-	-	-
Total Non-GAAP Adjustments	120	115	58	46	77	296	130	58	58	468	714	155	101	256

*For those periods that exclude the preferred stock dividend the average shares for the calculations of diluted EPS include 7 million shares associated with our Series A or Series B convertible preferred stock.

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(in \$ millions)

	2017					2018			2018 YOY CC % Change			
	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD	Q1	Q2	YTD	
Revenue (1)												
Entry	56	55	52	68	231	53	62	115	(10.9)%	10.6%	(0.3)%	
Mid-range	332	358	350	428	1,468	334	390	724	(2.5)%	7.4%	2.6%	
High-end	97	109	101	166	473	92	100	192	(9.4)%	(9.9)%	(9.7)%	
Other	28	34	28	33	123	20	9	29	(28.6)%	(73.5)%	(53.2)%	
Total Equipment Revenue	513	556	531	695	2,295	499	561	1,060	(6.4)%	(0.6)%	(3.3)%	
N. America	1,473	1,534	1,514	1,601	6,122	1,438	1,514	2,952	(2.8)%	(1.8)%	(2.3)%	
International	852	895	853	1,001	3,601	891	898	1,789	(5.5)%	(3.9)%	(4.7)%	
Other	129	138	130	145	542	106	98	204	(17.8)%	(29.0)%	(23.6)%	
Total Revenue	2,454	2,567	2,497	2,747	10,265	2,435	2,510	4,945	(4.6)%	(4.0)%	(4.3)%	
Installs (2)												
Entry A4 MFPs												
Color	15%	24%	23%	32%	24%	4%	21%	13%				
B&W	1%	10%	26%	34%	18%	18%	21%	20%				
Mid-range												
Color	-	(15)%	-	14%	-	16%	29%	23%				
B&W	(24)%	(14)%	(11)%	1%	(12)%	11%	13%	12%				
High-end												
Color	(15)%	(9)%	(2)%	(5)%	(8)%	6%	(9)%	(3)%				
B&W	(25)%	(34)%	(32)%	(10)%	(25)%	(9)%	(12)%	(11)%				

Notes:

(1) In 2018 revenues from our OEM business are included in Other, which had historically been reported within Entry. This reclassification was made to provide better transparency to our business results. Prior year amounts have been adjusted to conform to this change.

(2) Entry installations exclude OEM sales; Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales.

CC = Constant Currency