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Xerox Holdings Corp. (XRX)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Xerox Holdings Corporation Fourth Quarter 2021 Earnings Release Conference Call. After the presentation, there will be a question-and-answer session. [Operator Instructions]

At this time, I'd like to turn the meeting over to Mr. David Beckel, Vice President and Head of Investor Relations.

David Beckel

Head-Investor Relations & Vice President, Xerox Holdings Corp.

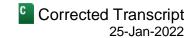
Good morning, everyone. I'm David Beckel, Vice President and Head of Investor Relations at Xerox Holdings Corporation. Welcome to the Xerox Holdings Corporation fourth quarter 2021 earnings release conference call hosted by John Visentin, Vice Chairman and Chief Executive Officer. He's joined by Xavier Heiss, Chief Financial Officer.

At the request of Xerox Holdings Corporation, today's conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the expressed permission of Xerox.

During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor, and 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'd like to turn the meeting over to Mr. Visentin. Mr. Visentin, you may begin.

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John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Good morning and thank you for joining our Q4 2021 earnings call. I hope everyone is safe and healthy.

Summarizing results for the year, revenue of \$7.04 billion grew slightly year-over-year in actual currency but was down 1.4% in constant currency. Adjusted EPS of \$1.51 was \$0.10 higher year-over-year. Full year GAAP earnings of minus \$2.56 reflects an after-tax noncash goodwill impairment charge of \$750 million, or \$4.08 per share, which is largely a reflection of the impact of the COVID-19 pandemic has had on our print business. We generated free cash flow of \$561 million, \$87 million greater than the prior year. Adjusted operating margin of 5.3% was lower year-over-year by 130 basis points, due primarily to supply chain-related disruption and incremental investments in our new businesses.

Our assumption entering the year was that in-office work would normalize following 2020 winter's wave of COVID-19 infections and the global rollout of effective vaccines. However, the Delta and Omicron variants of COVID-19 delayed companies' plans to return workers to the office, causing a reduction in expected post sale revenue and profits.

In the second half of the year, we experienced an unprecedented level of supply chain disruption with conditions deteriorating throughout the final two quarters of the year. These disruptions resulted in revenue falling below expectations we laid out at the beginning of the year, with most of the shortfall comprised of high-margin, midrange devices and post sale revenue.

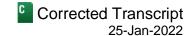
Supply chain disruptions also drove an increase to our backlog of equipment and IT hardware to nearly \$350 million, which is approximately 2.5 times higher than at the end of 2020. I am proud of the progress our team made this year, advancing initiatives that will set Xerox up for long-term growth in revenue and profits. We continue to streamline and optimize our operations and exceeded our target Project Own-It savings of \$375 million in 2021.

We invested in and grew areas of our print and services business that will lay the foundation for long-term stabilization and growth, areas such as IT services, digital document services, and hybrid workplace solutions. We stood up three new businesses – CareAR, XFS, and Innovation – and developed a blueprint for monetizing investments and innovation as evidenced by the formation of our Eloque joint venture and the outside investment in CareAR we received from ServiceNow, valuing CareAR at \$700 million on a post-money basis. And we generated more than \$500 million of free cash flow while investing significant amounts to expand our capabilities and grow our new business.

Despite continued uncertainty, there are many reasons to be optimistic as we head into 2022. Demand for our equipment remained strong as evidenced by our backlog, which stands at close to \$350 million as of year-end; that is 31% higher than the prior quarter and is primarily comprised of high-margin office equipment. This suggests to us that companies are continuing to invest in printing equipment in anticipation of a return of the workers to the office. We expect nearly all of this backlog to be installed, given previous quarter's timely clearing rates and limited risk of cancellation. But we do expect to carry an elevated backlog at least through the first half of the year. As the backlog clears, our equipment revenue mix will improve, driving gross margin higher.

We continue to believe that a broader return of workers to the office in 2022 is a matter of when, not if. And for Xerox, the correlation between return-to-work trends, page volumes, and post sale revenues remain strong, which suggests employees print when they return to the office and clients continue to value printing services. Our

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breadth of product offerings, suite of digital document workflow solutions and externally recognized security capabilities position us well to address evolving workplace needs going forward.

We stood up three businesses in 2021, XFS, software – now CareAR, and Innovation, and each is executing its own strategy for growth. At our Investor Day on February 23, we will share more detail about each business' strategy and their respective pathways to monetization. We will also provide sufficient detail about these businesses to allow analysts and investors to value each component separately.

We are expecting revenue to grow in 2022 to at least \$7.1 billion in actual currency. Underlying that expectation is an improvement in return to office trends in the second half of the year, which will drive improvements in high-margin post sale revenue. We expect supply chain constraints to ease in the back half of the year, resulting in a gradual reduction of our backlog thereafter, but we do not expect to fully deplete the backlog by the end of the year. The rate of revenue growth and margin improvement we achieve in 2022 will depend on duration of supply chain disruptions and the rate at which workers return to the office.

We also expect to generate at least \$400 million of free cash flow. Our free cash flow guidance reflects the absence of nonrecurring Fuji royalty payments we received in 2021 and cash investments in our recently stood up businesses of approximately \$200 million, which is close to a 50% increase relative to 2021 levels. Our ability to deliver growth in light of secular challenges we face is a testament to the strategic initiatives that drive our business, optimize operations, drive revenue, invest in and monetize innovation and focus on cash flow.

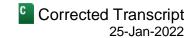
We first introduced Project Own It in 2018 with the mission of simplifying operations and instilling a culture of continuous improvement across the organization. We exceeded our gross saving target of \$375 million for Project Own It in 2021, bringing total savings since inception to around \$1.8 billion. We expect to generate another \$300 million of gross savings in 2022. These savings have allowed Xerox to invest in innovation and strategic growth priorities despite the difficult operating conditions we faced over the past two years.

The program has also driven greater operating efficiencies throughout the organization, improving revenue flow-through and return on assets. We see evidence of Project Own It's ability to drive continuous process improvement throughout the organization. For example, we exited the year with 500 bots in production, executing over 5 million internal transactions per quarter, which represents 200% growth year-over-year. These bots answer sales requests, manage products and services, and expedite case management and billing for our newly integrated partner, Lexmark. These same bots are now operationalized commercially, providing a differentiated offering for our IT services clients.

We continue to see favorable results from our efforts to harness growth opportunities in our print and services business. One of the primary reasons we grew revenue in actual currency in 2021 is our ability to consistently grow market share. As per the most recent report from IDC, we gained 2 points of revenue market share in Q3. This marks the fifth consecutive quarter of market share gains with particularly strong gains in office-centric products.

Market share gains are an important part of our strategy for stabilizing and growing our print and services business. We believe these gains are sustainable because they are the product of Xerox's comprehensive and differentiated offerings and direct sales presence. We go to market with a comprehensive suite of hardware, software and services, all with award-winning security features and with a focus on adding value to our clients' printing and document management processes.

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And our clients recognize this value. In October, Xerox became the only provider of management services in distributed workplaces to receive Gartner's Customer First Badge, which is earned through the accolades of positive customer feedback and ratings.

We are also seeing our collection of app-based workflow solutions gain traction with clients, particularly those that are accommodating hybrid workforces. This year, we extended the document workflow solutions available through our ConnectKey multifunction printer interface to all devices, including PCs and smartphones through our Workflow Central offering. In 2021, new hardware business attributable to our application saw a 35% increase.

Regarding Global Document Services, we had another strong quarter of signings for our capture and content services which helps clients digitally extract, categorize and automate workflows. Signings increased 36% in Q4 and 48% for the year. Growth was strong across renewals and new business in Q4, including a multi-million dollar deal to support a leading financial institution's digitization strategy as it consolidates its physical footprint.

In IT services, we saw strong double digit growth in managed IT services for both the quarter and the year. Managed IT services do not include equipment sales but rather comprised of, among other things, technology product support, professional engineering, and commercial robotic process automation. We have signed 16 RPA deals since our launch last year including our first \$1 million-plus deal with Veritext Legal Solutions. We will expand our IT services offerings in 2022 to include managed security and cybersecurity and a range of digital solutions including product and information management, master data management, and eCommerce and custom web development.

In the past year, we stood up three new businesses, XFS, our financial services business, software – now called CareAR, and PARC Innovation. I am pleased with the progress we have made to date. These businesses are expected to contribute strongly to future growth and to shareholder value creation. In 2021, we transitioned our separate software business into an end-to-end augmented reality service experience management platform called CareAR.

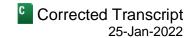
CareAR was officially formed in Q3 in conjunction with an investment by ServiceNow valuing our software business at \$700 million. And CareAR is quickly progressing along its product road map. This past quarter, we launched CareAR Instruct, which provides AI- and AR-driven self-solve equipment service solutions. This complements CareAR's flagship remote-solve offering, CareAR Assist. Investments in CareAR's capabilities and go-to-market partnership drove 45 new logo signings in 2021, giving us confidence CareAR will generate revenue of at least \$70 million in 2022.

At PARC, we continue to progress on our path to commercializing novel and disruptive technologies in each of our primary innovation pillars, Internet of Things, cleantech and 3D printing. At Eloque, in the first half of 2022, we will triple the number of bridges in Australia that have installed our sensors. And we are in talks with select European countries to deploy our bridge monitoring solutions. In the US, we are in discussions with multiple states to start deploying pilots in 2022.

In cleantech, we successfully completed testing the alpha prototype of our energy-efficient air conditioning technology. And we are developing a beta prototype based on requirements from a leading air conditioning manufacturer. We also partnered with a global auto manufacturer to test new methods of developing higher energy density batteries.

In 3D, we grew our pipeline of potential ElemX customers in the heavy manufacturing, aerospace and defense and automotive industries.

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In 2021, XFS expanded its offerings beyond Xerox equipment and embarked on a strategy that emphasizes portfolio growth through new dealers, new types of equipment at existing dealers and new product-vendor relationships. The pandemic and supply chain disruptions drove volumes of Xerox equipment financings lower in 2021 but XFS grew originations 14% year-over-year due primarily to greater penetration at XBS and added 136 new independent dealers. We look forward to sharing more details about specific customers and use cases for each of our new businesses at Investor Day.

Since 2018, on average, we have returned more than 100% of annual free cash flow to shareholders. During the fourth quarter, we generated \$182 million of free cash flow bringing the total for the year to \$561 million, ahead of our 2021 guidance of \$500 million. For the full year 2021, we returned close to \$1.1 billion of cash to shareholders through stock buyback and dividends, nearly double our free cash flow generation, all while continuing to invest in innovation and other strategic growth opportunities, and without increasing total debt.

Our guidance calls for a continuation of strong free cash flow generation and capital returns in 2022. We expect to generate at least \$400 million of free cash flow in 2022 and remain committed to returning at least 50% of free cash flow back to the shareholders. We will balance cash flow returns with investments in growth and value accretive M&A opportunities.

Before I hand it over to Xavier, I would like to emphasize a few points. 2021 was a challenging year for Xerox, and I commend our team for its ability to navigate the evolving uncertainty associated with the pandemic and the operational volatility caused by the supply chain disruptions. Uncertainty persists as we move into 2022, but we have learned how to successfully manage our business through it and evolve our capabilities to meet the needs of our clients no matter what type of workplace model they choose.

We have the right team and the right strategy in place to stabilize and grow our print services business and drive growth across each of our newly stood-up businesses.

I will now hand it over to Xavier to cover our financial results.

Xavier Heiss

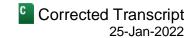
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thank you, John, and good morning, everyone. As John mentioned, continued disruption to global supply chain and new COVID-19 variants negatively affected our financial result in Q4. Revenue increased sequentially from Q3, but extensive high-margin product shortages, shipping delays and the Omicron variant caused Q4 revenue to come in slightly below our expectation. Despite this setback in Q4, demand for our product and services remained strong, as evidenced by our increased backlog of roughly \$350 million, which is close to 2.5 times the size of last year fourth quarter backlog.

Further, our hybrid workplace and digital solutions are driving new business wins. On page volume, we're higher in Q4 of this year than any quarter since the beginning of the pandemic. These favorable trends underpin our confidence to invest nearly \$400 million in our stock this quarter while maintaining investment in strategic growth priorities, and this trend drives our expectation for revenue growth in 2022.

Turning to profitability, as with Q3, higher supply chain costs, less profitable mix of equipment and lower margins on post sales revenue, drove our profitability lower year-over-year. Gross margin declined 330 basis points in the fourth quarter. 240 basis point of this decline is attributable to supply chain cost and capacity restrictions, including higher freight and shipping costs and constrained availability of higher margin A3 devices. 90 basis point

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of the decline relate to investment to support future growth on lower royalty revenue from FUJIFILM Business Innovation. We continue to expect supply chain disruption to pressure gross margin through at least the first half of 2022.

Adjusted operating margin of 4.8%, decreased 470 basis points year-over-year, reflecting lower gross profit. As explained before, lower government subsidies net of Project Own It savings and cost associated with standing up new businesses. These headwinds were partially offset by lower selling cost, bad debt expenses and compensation.

SAG expense of \$423 million, decreased \$17 million year-over-year. This decrease was primarily driven by savings from Project Own It, lower bad debt expense, which included \$12 million finance receivable reserve reduction, lower incentive and variable compensation accruals and lower sales and marketing expenses. Savings were partially offset by investments in new business of \$14 million, higher legal expenses and lower government subsidies. RD&E was \$75 million in the quarter, or 4.2% of revenue, which was an increase of 30 basis points as a percentage of revenue year-over-year.

Despite difficult operating environment, we continued to invest in new businesses this quarter, particularly 3D, cleantech and IoT. Other expenses, net, was \$26 million lower year-over-year, primarily driven by losses on the early extinguishment of debt in the prior year and higher non-service retirement related gains.

Fourth quarter adjusted tax rate was negative 8.8% compared to 29.8% last year, driven by benefit from the remeasurement of uncertain tax position in 2021, as well as the geographical mix of earnings. Adjusted EPS of \$0.34 in the fourth quarter was \$0.24 lower than in the prior year. A year-over-year reduction in adjusted pre-tax income was offset by lower taxes on a reduced share count.

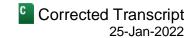
GAAP EPS of minus \$3.97 was \$4.33 lower year-over-year due to a goodwill impairment charge, partially offset by a decrease in the adjusted items on a lower tax rate. Our GAAP earnings for Q4 include an after-tax noncash goodwill impairment charge of \$750 million or \$4.38 per share. This charge largely reflects the impact economic disruption caused by the COVID-19 pandemic has had on the Xerox print business. Some of this impact is expected to be mitigated by growth of our digital services and offerings targeted for hybrid work business models.

Additionally, the company is currently pursuing strategy to develop and expand certain growth businesses, such as financing, software and innovation to offset and, eventually, exceed lower cash flow from the print business.

Turning to revenue, supply chain disruption and the spread of the Omicron variant in December resulted in equipment and post sales revenue coming in slightly below expectation. However, the underlying fundamentals of our business remained strong. Equipment order, once again, outpaced supplies, resulting in a cumulative backlog this quarter of equipment and IT hardware of nearly \$350 million, a 31% increase over Q3 or nearly 2.5 times prior-year levels. For context, our backlog is now approaching full quarter worth of equipment and hardware sales. The quality of our backlog remain high, and we expect nearly all excess backlog to be realized as revenue as supply chain condition normalize. Post sales trend also continued to correlate well with return-to-work trend.

Equipment sales of \$384 million in Q4 decreased 24.7% year-over-year or 23.9% in constant currency. The fourth quarter is usually the strongest quarter of the year for equipment sales. But supply chain disruptions limited our ability to satisfy seasonal increase in demand, resulting in a mild sequential decline in equipment sales relative to Q3 levels. At the product level, supply chain constraint most negatively affected installation of our mid-range product for both color and black and white and our entry color devices, causing a negative mix effect on equipment revenue and margin.

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Post sales revenue of \$1.4 billion decreased 1.9% year-over-year or 1.4% in constant currency. More than the entirety of the decrease reflect year-over-year headwinds from Fuji royalty, lower XBS financing commissions, and the large IT services deal in the prior year quarter. And despite the Omicron variant slowing pages volume in December, in the fourth quarter we recorded the highest level of page volume on revenue associated with the post sales component that are most closely tied with printing volumes, including services, outsourcing, paper and supplies since the beginning of the pandemic. Recent page volume momentum and the continued correlation between page volume and post sales revenue are encouraging indicator about the future trajectory of post sales revenue as worker return to offices even in a hybrid model.

In services, pandemic-related closure caused several large new business signings to fall into 2022, but renewal rates remain high and full year renewal rates were 2 points higher than the prior year. We generated free cash flow of \$182 million in Q4, down from \$221 million in the prior year. Lower cash earnings, which included significant investment in our new businesses, were offset by working capital benefit on lower finance receivable origination due to lower equipment sales.

We generated \$198 million of operating cash flow in the quarter, compared to \$235 million in the prior year, as lower profit were partially offset by working capital improvements. Working capital was a source of cash this quarter of \$193 million, which was \$70 million better than the prior year. This reflect year-over-year improvement in accounts payable and accounts receivable.

Investing activity were use of cash of \$31 million comprised primarily of \$15 million used to acquire businesses and asset and CapEx of \$16 million. CapEx primarily support our strategic growth program and investment in IT infrastructure. Financing activity consumed \$517 million of cash. Receivable financing activity was limited to securitization runoff of around \$75 million during the fourth quarter. We also utilized \$388 million of our \$500 million buyback authorization, the balance of which will be used opportunistically going forward.

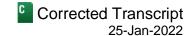
When combined with the \$49 million we paid in dividend, we returned a total of \$437 million of cash to shareholder this quarter or close to 250% of Q4 free cash flow. For the year, we returned a total of \$1.1 billion of cash to shareholder, almost double what we generated in free cash flow. I will share our 2022 capital allocation plan when I discuss guidance for the year.

Next, looking at profitability. At the start of the year, we announced a targeted \$375 million of gross savings from Project Own It in 2021. And I'm pleased to say that we exceeded that target. As planned, we utilized a significant portion of this savings to invest in the people, technology and infrastructure required to stand up three new businesses as well as ongoing investment in innovation across each of our new businesses and our portfolio of print and services offerings.

Despite these net savings, operating profit was negatively affected during the second half of the year by supply chain disruptions and delays in the return of workers to the office. We estimate the effect of supply chain-related disruption alone, including higher shipping and logistic costs on unfavorable equipment revenue and mix, account for nearly all the year-over-year decline in operating margin in the second half of the year.

As communicated earlier, we expect supply chain disruption to weight on gross and operating margin through at least the first half of the year. Targeted Project Own It savings for 2022 are \$300 million. This savings will help offset supply chain headwinds but as with the prior year our targeted savings will also be used to reinvest in our business.

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Turning to Xerox Financial Services, total finance asset declined by less than 1% quarter-over-quarter due primarily to portfolio runoff and equipment availability constrain, which reduce equipment sales and associated new lease origination.

Total XFS originations declined roughly 8% year-over-year, but indirect origination, which include XBS and leases directed at a multi-brand reseller, grew 9% year-over-year due primarily to increased penetration at XBS and were 9% above Q3 level. More and more, XFS portfolio growth will be driven by financial offering, targeting a broad array of office equipment, new dealer growth and non-Xerox vendor partnerships.

Regarding capital structure, we ended the year with a net core cash position of around \$600 million, which is below Q3 level due to the nearly \$400 million of stock we repurchased during the quarter. \$2.9 billion of the \$4.2 billion of our outstanding debt is allocated to and support the XFS lease portfolio.

So, remaining debt of around \$1.3 billion is attributable to the core business. Debt primarily consist of senior unsecured bonds and finance asset securitization. We have a balanced bond maturity ladder, with \$300 million maturing in 2022. Year to date, we have returned close to \$1.1 billion of cash back to shareholder, which contributed to the \$700 million year-over-year decrease in net core cash since the end of 2020.

Finally, I will address guidance for 2022. Starting with revenue, we expect revenue to grow to \$7.1 billion in actual currency. Supply chain condition and the ongoing pandemic continue to embed a level of uncertainty in our outlook. However, we feel comfortable providing an outlook for revenue growth in 2022 due to the strength in demand for our product, favorable print volume and post sales trend, and momentum we are seeing in our growth businesses such as software, Innovation and digital and IT services.

In terms of timing, we expect revenue growth in 2022 to be back up weighted as supply chain condition are likely to remain challenged through the first half of the year. Post sales revenue growth is expected to track a return of worker to the office, which we assume will take place in the second half of the year.

We will not be providing profitability guidance at this time. But I would like to offer some consideration. Similar to revenue, we expect profitability to be back up weighted in 2022. We expect gross margin to be negatively affected by supply chain disruption through at least the first half of the year. We began implementing price increases for equipment supplies and services in 2021, which will partially offset elevated shipping and logistic costs. Further, as supply chain condition is on page volume improve, we expect gross margin to benefit from equipment and revenue mix. Finally, Fuji royalties and financing commission will be less of a headwind in the back half of 2022.

I will also give some context for 2022 SAG expenses. We expect some of the \$300 million of additional savings from Project Own It will benefit SAG in 2022. However, these are some offset to be aware of. 2021 SAG expense benefited from government subsidies on bad debt reversal, totaling \$65 million, which we do not expect to recur in 2022. We also expect to invest more in our people. That said, we do expect operating margin to improve in 2022.

Finally, free cash flow. At this point in the year, we feel confident providing an outlook for free cash flow of at least \$400 million in 2022, which, as a reminder, reflects the absence of nonrecurring Fuji royalty payment we received in 2021. Cash flow generation is and will remain a primary focus at Xerox.

It is important to point out that despite the challenging environment, we are not slowing investment in business with high-growth potential. In fact, included in our guidance of at least \$400 million of free cash flow is a roughly 50% increase in cash investment across each of our new businesses investment that will total around \$200 million in 2022.

We believe it is important for our investor to understand the magnitude of our commitment as we stand these businesses up. We look forward to sharing more details about these businesses, including the specific growth opportunity made available through this investment at our Investor Day.

I will now hand it over to John.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you, Xavier. Operator, will you open the lines for questions?

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of from Ananda Baruah from Loop Capital. Your question, please.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Hey, and good morning, guys. Happy New Year. Thanks for all the details and taking the question. Just a couple, if I could. First, on the revenue growth. How are you guys thinking about based on what you see right now kind of the normalized revenue growth of the business given when you net out the current backlog, we're not yet back to office, and what you've seen since 2020, given that you're actually looking for revenue growth this year off of sort of big drop-down in 2020, but then pretty stable 2020 and 2021, would love to get your thoughts there. And then, I have a quick follow-up.

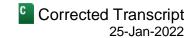
Xavier Heiss
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Hey, Ananda, so good morning. So, revenue, you should look at that with two angles, one is equipment and, as you have seen it, I mean, we suffered in quarter four from, I would say, supply chain disruption, mainly driven by the lack of chips there, but you saw as well that our backlog – equipment backlog, which is a strong backlog, has increased, increased 31% over quarter three, but also year-over-year very significant increase there.

So, we expect this backlog to resolve or to clear during the second half of the year with the visibility we have on the supply chain. We are used to have around \$100 million, \$250 million of backlog of equipment. We expect – I will call that half of this backlog to be resolved – remaining backlog to be resolved in quarter – in the second half, so H2.

Then, post sales, post sales is everything related to back to the office and employer using our solution and using our equipment here. So, good news and we mentioned this and we commented here is that in Q4, since the pandemic, the beginning of the pandemic, we have had the highest print volume on our equipment. And it was very strong in October, November. And then, as we already quoted, strictly related to the variant and the pandemic here, there is a strong correlation with the presence in the office and the ability of a user to use our solution. So, December was a little bit softer, but we feel encouraged with Omicron now being more behind us and the recovery we start seeing in quarter one coming from different countries, not only in the US, but also in Europe.

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Ananda Baruah

Analyst, Loop Capital Markets LLC

And do you think – sort of the new business notwithstanding, do you guys think once you get through the backlog, the revenue decline profile of the core business resumes back to being similar to prior the pandemic? Or do you think it could look different?

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Yeah. Ananda, good morning. I would say...

[indiscernible] (37:53)

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

...when you think of the revenue backlog in our print business, what we've done also is invested in the IT services business, which wraps a lot of solutions and digital services around the product. And we've seen a lot of good growth come from both those businesses. So, our strategy moving forward is: one, win market share, which we have in the last few quarters, and continue to win market share in the spaces where we're strong; and then two, continue to wrap our services around security services, IT services, MPS services around our product base, so that we can have sustainable growth going forward.

Ananda Baruah

Analyst, Loop Capital Markets LLC

That's really helpful. I'll leave it there, I know these are lot of questions. Thanks, guys.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you, Ananda.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thank you, Ananda.

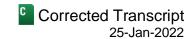
Operator: Thank you. Your next question comes from the line of Shannon Cross from Cross Research. Your question, please.

Shannon Cross

Analyst, Cross Research

Yes. Thank you very much for taking my question. I'm curious, I realize you're not giving EPS guidance, but as we look to early in fiscal – or sorry, in 2022, how should we think about operating margin trajectory? I know, Xavier, you talked about it being up to the full year, I believe, on a year-over-year basis. But clearly, there's [ph] some new (39:08) pressure early on. So, maybe if you can just give us some more color on how you're thinking about linearity during the year, that would be helpful.

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Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yes. So, Shannon, good morning. So, what we expect from an operating margin is an improvement. As you know, the operating margin is highly driven by the revenue mix. What we faced during 2021, 2020 as well there, is less of a mix of post sales revenue. And as we just commented here, we expect this post sales revenue to increase, improve next year with hybrid environment and back to the office environment we just described.

At the same time, the backlog that we have currently from an equipment point of view impact mainly the A3 equipment. And as you know, A3 equipment attract a higher margin. So if I'm assuming that back to office will improve during the second half of the year, plus some of the backlog could be resolved also during the second half of the year, I'm expecting a sequential improvement in quarter three, quarter four of margin here. We provided during the script or during my explanation, some guidance around also the investment that we are making, we are still sustaining this investment and also increasing the investment in order to support the gross revenue businesses that we are building up currently.

Shannon Cross

Analyst, Cross Research

Okay. Thank you. And then maybe, John, could you talk a bit about it – I think it's \$200 million that you're investing in your growth businesses, can you maybe give some more clarity into where those dollars are going and then what sort of milestones we should be watching within CareAR, 3D print, the sensor business, and in HVAC? I'm not sure exactly where you've focused most of your investment dollars. Thank you.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

So on Analyst Day we'll detail that out for you in February, Shannon. But suffice to say that we're doing investments both in R&D and go-to-market and partnership and standing up these businesses so that they can fly on their own – fly on their own, they don't have just the reliability on us. XFS is an example where in the past they relied on Xerox and Xerox products alone, and now [ph] we've asked and (41:24) they started becoming a global payment solution business where they're looking for OEM and third-party partners. And that takes investments. So, we'll detail all of that per unit so that you could have the right metrics to do the valuation at Analyst Day.

Shannon Cross

Analyst, Cross Research

Okay. And then my final question, I think there's an 8-K recently talking about some retention program for a change of control. Can you just give us some idea as to what drove that and maybe more specifics on the program? Thank you.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

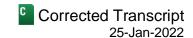
Yeah. This is – we're just trying to align with some of our key employees that have been instrumental in standing up these businesses. And we're just trying to align compensation for them, which basically says if at an exit – a type of exit, that they would be also compensated, but there has to be some type of monetization.

Shannon Cross

Analyst, Cross Research

Okay. Thank you very much.

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Operator: Thank you.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thanks, Shannon.

Operator: Our next question comes from the line of Erik Woodring from Morgan Stanley. Your question, please.

Sabrina E. Hao

Analyst, Morgan Stanley & Co. LLC

Hi. This is Sabrina Hao on for Erik Woodring. Thanks for taking the question. I guess, first, we were wondering how should we think about the pace of buybacks in 2022 given that dividend should account for nearly 50% of free cash flow in the year. And so, why not buy back more?

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

So, good morning. So, buyback profile, so as you know it we have a \$500 million authorization of buyback. As we mentioned it, we spend in 2021 \$388 million, so we are left with \$112 million. And as we already communicated there, we are using this buyback opportunistically to position the share price what it should be.

Sabrina E. Hao

Analyst, Morgan Stanley & Co. LLC

Okay. Perfect. And then just a follow-up, for the \$300 million of gross savings in 2022 from Project Own It, how should we think about those being concentrated?

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

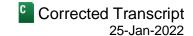
So, you know, back to Project Own It. Project Own It is much broader than I would say cost cutting type of program there. This is a program, which is more systematic, which allow us and you have seen this during the pandemic and even in 2021, us being able to adjust our cost base and ensuring that whatever quarter we are faced we were able to be EPS and free cash flow positive.

So, this is a spirit on the mindset we have. We don't take the year as granted here. We are expecting so recovery to happen during the second half of the year. But, you never know and we have to keep this flexibility.

So, Project Own It, the \$300 million will be distributed across the main cost line of the P&L. It's mainly geared toward cost of goods sold and some impact on the SAG as well here. We will detail during the Investor Day the specific area.

But just to illustrate example of what we have, we have currently from internal use, much more robot automations that we never had. That means we have currently more than 500 robots running millions of transactions and replacing, I would say, manual activity and providing better outcome for customer here. We will provide more detail, more insight during Investor Day on the Project Own It on how we drive it and manage it.

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Sabrina E. Hao

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Samik Chatterjee from JPMorgan. Your question please.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Okay. Thank you. John, you mentioned as you're planning for 2022 the return-to-work is more a matter of when and not if. But I guess there's also consensus that increasing number of professionals will work in a hybrid setup even – even as people come back to work. So, just wanted to understand how you're thinking about aligning both the equipment business as well as managed print business to increasing number of people working in the hybrid setup and sort of growing the business with the consumers in the hybrid setup as well. And then, I have a follow-up.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Yes. So, if you think of our digital solutions, we are – we are positioned well in a hybrid environment, where print will be done both at the office and at home. But as importantly, workflow solutions assuring where the information is going from one place to the other, keeping it secure and assuring that it's being printed properly at the right places becomes important. So, our solutions like our cloud-based print solution, our security solution helps a lot in the hybrid environment.

What we also found, Samik, is that as clients return back to the office, even in a hybrid environment, whether it's three days a week or four days a week or two days a week, a lot of the printing is done still in the office. And we see it with a few things, not just on market share that we've gained, but we've also seen it with a backlog that we – that's been increasing while we're in the Omicron's crisis where a lot of the offices are still closed. So, we're seeing clients getting set up for the future, and that gives us confidence.

Now, we've modeled that – we said they'll come back to the office and more than likely in the second half, but we're following – we're following the guidelines like everybody else, CDC guidelines and all, and just watch it. But that's how we look at it.

Samik Chatterjee

Analyst, JPM organ Securities LLC

And just a quick follow-up. I think looking at seasonality 1Q in – on average, tends to be about down low-teens versus 4Q in terms of revenue if I look at the past few years. Just wanted to think – see if you can help us think about how to think about the setup for 2022 given that you have a backlog but you're also talking about constraints sort of the period return-to-work in the first half itself. So, just maybe help us think about how maybe it is typical seasonality...

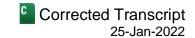
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John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

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And I think you've heard us say this, Samik, that in the first quarter, we're not seeing much of a supply chain improvement, albeit a little bit in the first quarter. And we're modeling that supply chain should start stabilizing in the second half of the year. And again back to work and with Omicron and all that, we're modeling a second half of the year we'll return to the office gradually over the next few quarters.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Thank you.

Operator: Thank you. Our next question comes from the line of Jim Suva from Citigroup. Your question, please.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Thank you. In your prepared comments, you mentioned incremental investment of \$200 million. You mentioned that on Investor Day you'll give some more details. But I wasn't sure, is that \$200 million for [ph] Xerox core or for (48:22) PARC or kind of a combination? And was it kind of always planned or was it just kind of newer communicated to us, because I'm trying to figure out as it – you're getting closer to go-to-market with more initiatives in Xerox PARC or is it expandable addressable market, or I'm just kind of curious for additional commentary, if possible.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. Hi, Jim. Good morning. So, just to clarify, so \$200 million are not incremental. What we have commented here is that we will have \$200 million of investment to support the investments that we are making in these new businesses. These new businesses are what we call Innovation, XFS and software businesses. So, that's are the three businesses that we are currently supporting since the beginning of the year.

What we mentioned is that there is – this \$200 million is roughly \$70 million above of what we were doing last year, so in 2021, which is roughly 50% of the increase. So, as you can sense it, this is more insight that we are providing on these businesses. So, you can have a view of the investments that we are making and also see how we use some of the cash generated by the print business to invest in the future of the company from a revenue point of view.

So, this is continuous improvement with an increase in acceleration and just show as well the maturity of some investment and our intent to drive the revenue growth and monetize these investments there.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. It's greatly appreciated, and I look forward to hearing more from you next month.

John Visentin

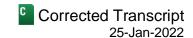
Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you, Jim.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

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Thank you, Jim.

Operator: Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to John Visentin for any further remarks.

John Visentin

Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you, operator. As you heard today, we are confident in our ability to deliver at least \$7.1 billion of revenue in actual currency and \$400 million of free cash flow in 2022 despite the continued uncertainty. That confidence stems from the strength of our team in a strategy we believe in. We look forward to sharing our three-year outlook and plans for driving long-term growth and results and shareholder value at our Investor Day. We hope to see you all there. Be safe and be well.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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