

Xerox Reports Fourth Quarter 2014 Results

On December 18, 2014, Xerox Corporation announced that it had entered into an agreement to sell its Information Technology Outsourcing (ITO) business to Atos S.E. (Atos). The transaction is subject to customary closing conditions and regulatory approval and is expected to close in the first half of 2015. As a result of the pending sale of the ITO business and having met applicable accounting requirements, Xerox is reporting the ITO business as a discontinued operation beginning with fourth quarter 2014. Prior period results have been revised to reflect this change.

Fourth Quarter Overview

- **EPS:** GAAP EPS from continuing operations of \$0.26/share, adjusted¹ EPS of \$0.31/share
- **Q4 total revenue** of \$5.0 billion; down 3% YOY (down 1% CC*)
 - **Services:** increase of 1% YOY (up 3% CC*)
 - **Document Technology:** decrease of 8% (down 6% CC*)
 - **Annuity revenue** of \$4.2 billion; down 2% YOY (flat CC*); 83% of total
 - **Equipment revenue** of \$860 million; down 11% YOY (down 9% CC*); 17% of total
- **Operating margin** of 10.4%; up 1.0 pts YOY
- **Segment margins:** Services 9.8%, Technology 14.4%
- **Restructuring** of \$36 million

Balance Sheet/Cash

- **Cash from operations:** \$857 million in Q4, \$2.1 billion FY
 - Underlying cash flow of \$953 million in Q4 and \$2.5 billion FY improves \$113 million and \$418 million YOY, respectively
- **CAPEX** of \$114 million, \$452 million FY
- **Acquisitions** of \$34 million, \$340 million FY
- **Adj. avg. fully diluted share count²:** 1,171 million
- **Ending fully diluted share count²:** 1,159 million
- **Share repurchases** of \$341 million, \$1,071 million FY
- **Debt** of \$7.7 billion

Guidance

- **Revenue:** FY flat CC
- **EPS:**
 - **Q1 2015 adjusted¹:** \$0.20 – \$0.22
 - Q1 includes approx. \$0.02 of restructuring
 - **FY 2015 adjusted¹:** \$1.00 - \$1.06
 - **GAAP (from Continuing Operations):** Q1 2015: \$0.16 - \$0.18; FY 2015: \$0.83 - \$0.89
 - **FY guidance reflects 5 cent negative impact from recent currency movements**
- **Share repurchases:** ~\$1 billion
- **Acquisitions:** up to \$900 million
- **Q1/FY 2015 adjusted¹ tax rate:** 25% - 27%
- **Full year operating cash flow:** \$1.7 - \$1.9 billion range
 - **Reflects ITO divestiture timing and negative currency impact**

Services Segment

- **Q4 revenue** of \$2.7 billion, up 1% YOY (up 3% CC*)
- **Services now 54% of total company revenue**
- **Revenue mix** of 68% BPO, 32% DO
- **Segment margin** 9.8%; up 0.1 pts YOY
 - Improvements across BPO and continued strong margin in DO
- **Year-over-year revenue:**
 - 3% growth in Business Process Outsourcing (BPO) (up 4% CC*)
 - 2% decline in Document Outsourcing (DO) (up 1% CC*)
- **Metrics:**
 - **Signings of \$3.2 billion TCV**
 - Up 20% YOY, driven by higher renewal activity
 - ARR/NRR new business down 27% YOY, down 13% TTM
 - Significant deals awarded but not signed
 - **Renewal rate (BPO) of 93%**

Document Technology Segment

- **Q4 revenue** of \$2.2 billion; down 8% YOY (down 6% CC*)
 - Revenue down 6% including DO (down 4% CC*)
 - Annuity revenue down 6% YOY (down 4% CC*), 68% of revenue
 - Equipment revenue down 12% YOY (down 10% CC*), 32% of revenue
 - Prior year finance receivables sales contributed approximately one point to Q4 revenue decline
- **Segment margin of 14.4%; up 2.8 pts YOY**
 - Profit expansion driven by continued productivity, currency, pension and bad debt benefits
 - **Revenue mix** of 19% entry, 56% mid-range, 25% high-end

Installs³

Overall Install Growth			
	Entry	Mid-Range	
A4 Color MFDs	(9%)	Mid-Range Color MFDs	(1)%
Color Printers	9%	Mid-Range B&W MFDs	(8)%
A4 Mono MFDs	(25%)		
High-End			
High-End Color ⁴			12%
High-End B&W			(19)%

* Constant currency (CC)

(1) Adjustments limited to the amortization of intangible assets in 2014 and 2013

(2) Represents common shares outstanding at 12/31/14 plus dilutive potential common shares as used for the calculation of adjusted earnings per share for Q4 2014

(3) Installs include Document Technology and Services segments

(4) High-end install growth impacted by digital front end (DFE) sales to Fuji Xerox, High-End up 7% in Q4 excluding DFE's

Please see our forward looking statements and non-GAAP reconciliation contained in our fourth quarter 2014 earnings release posted on our website at <http://www.xerox.com/investor>

