

Xerox Reports Fourth-Quarter 2018 Results

Strategic Initiatives

- Optimize operations for simplicity
- Drive revenue
- Re-energize innovation
- Focus on cash flow and increase capital returns

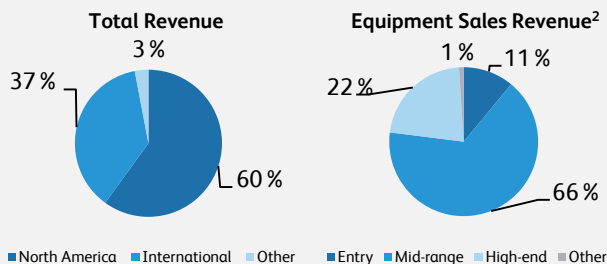
Highlights

- Q4 adjusted¹ EPS grew over 10% for strong close to 2018
- Significant progress on Project Own It, Q4 adjusted¹ Operating Margin expanded 180 basis points YOY
- Delivered \$1.05B of Free Cash Flow (FCF)¹ for full year, above guidance
- Committed to shareholder returns, \$969M in 2018 (92% of FCF¹)
- Investor day on February 5th to provide more details on strategy and financial expectations

Fourth-Quarter Results

Revenue \$2.5B, down 7.8% or down 6.1% CC¹

- Equipment \$0.6B, down 9.5% or down 7.7% CC¹
- Post Sale \$1.9B, down 7.2% or down 5.5% CC¹; 75% of Total Revenue



- **Gross Margin:** 40.0%, down 30 bps YOY
- **Operating Margin – adjusted¹:** 16.1%, up 180 bps YOY
- **Equity Income – adjusted¹:** \$44M, up \$18M YOY
- **Tax Rate – adjusted¹:** 27.9% vs. 26.1% in Q4 '17
- **GAAP EPS:** \$0.56 vs. loss of \$0.78 in Q4'17
- **EPS – adjusted¹:** \$1.14, up \$0.11 YOY
- **Free Cash Flow¹:** Q4 \$398M; FY \$1.05B; CAPEX of \$17M in Q4 and \$90M FY
- **Ending cash:** \$1.1B; **Ending debt:** \$5.2B (\$3.4B financing & \$1.8B core)

Key Metrics

MDS revenue down 4.1% or 1.7% CC¹ YOY

Installs – YOY % change

- Entry A4 MFPs³ color up 11%, B&W up 9%
- Mid-Range color⁴ up 3%, B&W up 1%
- High-End color⁴ down 12%, B&W down 34%

2019 Financial Expectations

- **Revenue:** Down ~5% CC¹
- **Operating Margin - adjusted^{1,5}:** 12.6% -13.1%, up 100 to 150 bps YOY
- **GAAP EPS:** \$2.60 - \$2.70
- **EPS – adjusted¹:** \$3.70 - \$3.80
- **FCF¹:** \$1.0B - \$1.1B; CAPEX of ~\$150M
- Board increases share repurchase authority by \$1.0 billion; expecting at least \$300 million of share repurchases in 2019.

(1) Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures contained in our fourth-quarter 2018 earnings release and slides posted on our website at <http://www.xerox.com/investor>. (2) Entry equipment revenue excludes OEM business, which is included in Other equipment revenue. (3) Entry installations exclude OEM sales, including OEM sales Color A4 MFPs down 22%, B&W down 8%. (4) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales (DFEs); including DFEs, Mid-range color was up 3%, and High-end color down 13%. (5) In 2019, we are revising our definition of adjusted operating margin to exclude equity income.