

A modern office interior with large windows overlooking a city. Several people are seated around a table, working on laptops and looking at digital displays. A large potted plant is visible on the left. The scene is lit with recessed ceiling lights and natural light from the windows.

# Non-GAAP Financial Measures

Q3 2023 Results

October 24, 2023



# Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with GAAP.

Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

## Adjusted Earnings Measures

- Adjusted Net Income (Loss) and Earnings per share (EPS)
- Adjusted Effective Tax Rate

The above measures were adjusted for the following items:

- Restructuring and related costs, net: Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.
- Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods
- Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.
- Discrete, unusual or infrequent items: We exclude these item(s), when applicable, given their discrete, unusual or infrequent nature and their impact on the comparability of our results for the period to prior periods and future expected trends.
  - Goodwill Impairment
  - PARC donation
  - Contract termination costs – product supply
  - Accelerated share vesting - stock compensation expense associated with the accelerated vesting of all outstanding equity awards, according to the terms of the award agreement, in connection with the passing of Xerox Holding's former CEO.
  - Loss on early extinguishment of debt
  - Tax Indemnification – Conduent

# Non-GAAP Financial Measures

## Adjusted Operating Income (Loss) and Margin

We calculate and utilize adjusted operating income (loss) and margin measures by adjusting our reported pre-tax income (loss) and margin amounts. In addition to the costs and expenses noted as adjustments for our adjusted earnings measures, adjusted operating income (loss) and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

A reconciliation of the estimated adjusted operating income expected to be delivered by the Reinvention to the closest GAAP financial measure, pre-tax income, is not provided because pre-tax income for those periods is not available without unreasonable effort, in part because the amount of estimated restructuring and other incremental costs related to the Reinvention is not available at this time.

## Constant Currency (CC)

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as “constant currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is not the U.S. dollar. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

## Free Cash Flow

To better understand trends in our business, we believe that it is helpful to adjust operating cash flows by subtracting amounts related to capital expenditures. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase.

# Adjusted Net Income and EPS Reconciliation

(in millions, except per share amounts)	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
	Net Income	Diluted EPS	Net (Loss) Income	Diluted EPS
<b>Reported</b> <sup>(1)</sup>	\$ 49	\$ 0.28	\$ (383)	\$ (2.48)
<b>Adjustments:</b>				
Goodwill Impairment	-		412	
Restructuring and related costs, net	10		22	
Amortization of intangible assets	12		10	
Non-service retirement-related costs	4		(7)	
Tax Indemnification - Conduent	(7)		-	
Income tax on adjustments <sup>(2)</sup>	9		(21)	
<b>Adjusted</b>	<b>\$ 77</b>	<b>\$ 0.46</b>	<b>\$ 33</b>	<b>\$ 0.19</b>
Dividends on preferred stock used in adjusted EPS calculation <sup>(3)</sup>		\$ 4		\$ 4
Weighted average shares for adjusted EPS <sup>(3)</sup>		159		157
Fully diluted shares at end of period <sup>(4)</sup>		125		

(1) Net Income (Loss) and EPS attributable to Xerox Holdings. Net Loss and EPS for the third quarter 2022 include an after-tax non-cash goodwill impairment charge of \$395 million, or \$2.54 per share.

(2) Refer to Adjusted Effective Tax Rate reconciliation.

(3) For those periods that include the preferred stock dividend, the average shares for the calculations of diluted EPS exclude the 7 million shares associated with our Series A Convertible preferred stock.

(4) Common shares outstanding at September 30, 2023 plus potential dilutive common shares used for the calculation of adjusted diluted EPS for the third quarter 2023. Excludes shares associated with our Series A convertible preferred stock, all of which were anti-dilutive for the third quarter 2023 and 2022, respectively.

# Adjusted Effective Tax Rate Reconciliation

(in millions)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax Expense	Effective Tax Rate
<b>Reported</b> <sup>(1)</sup>	\$ 63	\$ 15	23.8%	\$ (380)	\$ 3	-0.8%
Goodwill Impairment	-	-		412	17	
Non-GAAP Adjustments <sup>(2)</sup>	19	(9)		25	4	
<b>Adjusted</b> <sup>(3)</sup>	<u>\$ 82</u>	<u>\$ 6</u>	<u>7.3%</u>	<u>\$ 57</u>	<u>\$ 24</u>	<u>42.1%</u>

(1) Pre-Tax Income (Loss) and Income Tax expense.

(2) Refer to Adjusted Net Income and EPS reconciliations for details.

(3) The tax impact on the Adjusted Pre-Tax Income' is calculated under the same accounting principles applied to the Reported Pre-Tax Income (Loss) under ASC 740, which employs an annual effective tax rate method to the results.

# Adjusted Operating Income and Margin Reconciliation

(in millions)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
<b>Reported</b> <sup>(1)</sup>	\$ 63	\$ 1,652	3.8%	\$ (380)	\$ 1,751	(21.7)%
<b>Adjustments:</b>						
Goodwill impairment	-			412		
Restructuring and related costs, net	10			22		
Amortization of intangible assets	12			10		
Other expenses, net	(17)			1		
<b>Adjusted</b>	<u>\$ 68</u>	<u>\$ 1,652</u>	4.1%	<u>\$ 65</u>	<u>\$ 1,751</u>	3.7%

(1) Pre-tax Income (Loss)

# Free Cash Flow Reconciliation

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
(in millions)	2023	2022
<b>Reported</b> <sup>(1)</sup>	\$ 124	\$ (8)
Less: capital expenditures	12	10
<b>Free Cash Flow</b>	<u>\$ 112</u>	<u>\$ (18)</u>

*(1) Net cash provided by (used in) operating activities.*

# Other Expenses, net Reconciliation

(in millions)	Three Months Ended	
	September 30,	
	2023	2022
<b>Reported</b>	\$ (17)	\$ 1
Less: non-service retirement-related costs	4	(7)
<b>Adjusted</b>	<b>\$ (21)</b>	<b>\$ 8</b>



# Net Income (Loss) and EPS Reconciliation - Historical

(in millions, except per share amounts)	Year Ended December 31, 2021		Q1-22		Q2-22		Q3-22		Q4-22		Year Ended December 31, 2022		Q1-23		Q2-23	
	Net (Loss)		Net		Net		Net		Net		Net		Net		Net	
	Income	EPS	Loss	EPS	Income	EPS	Income	EPS	Income	EPS	Income	EPS	Income	EPS	Income	EPS
<b>Reported</b> <sup>(1)</sup>	\$ (455)	\$ (2.56)	\$ (56)	\$ (0.38)	\$ (4)	\$ (0.05)	\$ (383)	\$ (2.48)	\$ 121	\$ 0.74	\$ (322)	\$ (2.15)	\$ 71	\$ 0.43	\$ (61)	\$ (0.41)
PARC donation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132
Goodwill Impairment <sup>(2)</sup>	781	-	-	-	-	-	412	-	-	-	412	-	-	-	-	-
Restructuring and related costs, net	38	-	18	-	1	-	22	-	24	-	65	-	2	-	23	-
Amortization of intangible assets	55	-	11	-	10	-	10	-	11	-	42	-	11	-	10	-
Non-service retirement-related costs	(89)	-	(7)	-	(4)	-	(7)	-	6	-	(12)	-	(1)	-	11	-
Accelerated Share Vesting	-	-	-	-	21	-	-	-	-	-	21	-	-	-	-	-
Loss on early extinguishment of debt	-	-	-	-	4	-	-	-	1	-	5	-	-	-	3	-
Contract termination costs <sup>(3)</sup>	-	-	33	-	-	-	-	-	-	-	33	-	-	-	-	-
PARC donation income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(40)
Income tax on adjustments	(37)	-	(13)	-	(4)	-	(21)	-	(17)	-	(55)	-	(1)	-	(6)	-
<b>Adjusted</b>	<b>\$ 293</b>	<b>\$ 1.51</b>	<b>\$ (14)</b>	<b>\$ (0.12)</b>	<b>\$ 24</b>	<b>\$ 0.13</b>	<b>\$ 33</b>	<b>\$ 0.19</b>	<b>\$ 146</b>	<b>\$ 0.89</b>	<b>\$ 189</b>	<b>\$ 1.12</b>	<b>\$ 82</b>	<b>\$ 0.49</b>	<b>\$ 72</b>	<b>\$ 0.44</b>
Dividends on preferred stock used in adjusted EPS calculation <sup>(4)</sup>		\$ 14		\$ 4		\$ 3		\$ 4		\$ -		\$ 14		\$ 4		\$ 3
Weighted average shares for adjusted EPS <sup>(4)</sup>		185		156		156		157		165		157		158		158

<sup>(1)</sup> Net (Loss) Income and EPS attributable to Xerox Holdings.

<sup>(2)</sup> Full-year 2021 Net (loss) and EPS include an after-tax non-cash goodwill impairment charge of \$750 million (\$781 million pre-tax) or \$4.08 per share. Third quarter and full-year 2022 Net (loss) and EPS include an after-tax non-cash goodwill impairment charge of \$395 million (\$412 million pre-tax), or \$2.54 per share, respectively.

<sup>(3)</sup> Reflects termination of a product supply agreement in the first quarter of 2022.

<sup>(4)</sup> 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 convertible preferred stock, as applicable.

# Adjusted Operating Income (Loss) and Margin Reconciliation - Historical

(in millions)	Year Ended December 31, 2021			Q1-22			Q2-22			Q3-22			Q4-22			Year Ended December 31, 2022		
	(Loss) Profit	Revenue	Margin	Loss	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
<b>Reported</b> <sup>(1)</sup>	\$ (475)	\$ 7,038	(6.7%)	\$ (89)	\$ 1,668	(5.3%)	\$ (5)	\$ 1,747	(0.3%)	\$ (380)	\$ 1,751	(21.7%)	\$ 146	\$ 1,941	7.5%	\$ (328)	\$ 7,107	(4.6%)
<b>Adjustments:</b>																		
Goodwill impairment	781			-			-			412			-			412		
Restructuring and related costs, net	38			18			1			22			24			65		
Amortization of intangible assets	55			11			10			10			11			42		
PARC donation	-			-			-			-			-			-		
Accelerated Share Vesting	-			-			21			-			-			21		
Other expenses, net	(24)			57			8			1			(3)			63		
<b>Adjusted</b>	<u>\$ 375</u>	<u>\$ 7,038</u>	5.3%	<u>\$ (3)</u>	<u>\$ 1,668</u>	(0.2%)	<u>\$ 35</u>	<u>\$ 1,747</u>	2.0%	<u>\$ 65</u>	<u>\$ 1,751</u>	3.7%	<u>\$ 178</u>	<u>\$ 1,941</u>	9.2%	<u>\$ 275</u>	<u>\$ 7,107</u>	3.9%

<sup>(1)</sup> Pre-Tax (Loss) Income.

(in millions)	Q1-23			Q2-23		
	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported</b> <sup>(1)</sup>	\$ 85	\$ 1,715	5.0%	\$ (89)	\$ 1,754	(5.1%)
<b>Adjustments:</b>						
Restructuring and related costs, net	2			23		
Amortization of intangible assets	11			10		
PARC donation	-			132		
Other expenses, net	20			31		
<b>Adjusted</b>	<u>\$ 118</u>	<u>\$ 1,715</u>	6.9%	<u>\$ 107</u>	<u>\$ 1,754</u>	6.1%

<sup>(1)</sup> Pre-Tax Income (Loss).

# Free Cash Flow Reconciliation – Historical

(in millions)	Year Ended					Year Ended		
	December 31, 2021	Q1-22	Q2-22	Q3-22	Q4-22	December 31, 2022	Q1-23	Q2-23
<b>Reported<sup>(1)</sup></b>	\$629	\$66	(\$85)	(\$8)	\$186	\$159	\$78	\$95
Less: capital expenditures	68	16	13	10	18	57	8	7
<b>Free Cash Flow</b>	<u>\$561</u>	<u>\$50</u>	<u>(\$98)</u>	<u>(\$18)</u>	<u>\$168</u>	<u>\$102</u>	<u>\$70</u>	<u>\$88</u>
Add: one-time contract termination charge - product supply	-	-	41	-	-	41	-	-
<b>Free Cash Flow - Adjusted</b>	<u>\$561</u>	<u>\$50</u>	<u>(\$57)</u>	<u>(\$18)</u>	<u>\$168</u>	<u>\$143</u>	<u>\$70</u>	<u>\$88</u>

<sup>(1)</sup> Net cash provided by (used in) operating activities.

# Adjusted Operating Income and Margin – Guidance

(in millions)	FY 2023		
	Profit	Revenue (CC) <sup>(2, 3)</sup>	Margin
<b>Estimated</b> <sup>(1)</sup>	~\$125	~\$7,000	~1.8%
<b>Adjustments:</b>			
PARC donation	132		
Restructuring and related costs, net	65		
Amortization of intangible assets	40		
Other expenses, net	40		
<b>Adjusted</b> <sup>(4)</sup>	<u>~\$400</u>	<u>~\$7,000</u>	5.5-6.0%

<sup>(1)</sup> Pre-tax income and revenue.

<sup>(2)</sup> Full-year revenue is estimated to be flat to down low-single-digits, in constant currency. Revenue of \$7.0 billion reflects the midpoint of the guidance range.

<sup>(3)</sup> See "Constant Currency" in the Non-GAAP Financial Measures section for a description of constant currency.

<sup>(4)</sup> Adjusted pre-tax income reflects the mid-point of the adjusted operating margin guidance range.

# Free Cash Flow – Guidance

<b>(in millions)</b>	<b>FY 2023</b>
<b>Operating Cash Flow<sup>(1)</sup></b>	At least \$650
Less: capital expenditures	50
<b>Free Cash Flow</b>	<b>At least \$600</b>

*(1) Net cash provided by operating activities.*

**xerox**<sup>TM</sup>