

01-May-2025

Xerox Holdings Corp. (XRX)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

David Beckel

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

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

OTHER PARTICIPANTS

Ananda Baruah

Analyst, Loop Capital Markets LLC

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Samik Chatterjee

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Xerox Holdings Corporation First Quarter 2025 Earnings Release Conference Call. After the presentation, there will be a question-and-answer session. [Operator Instructions]

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

David Beckel

Vice President & Head-Investor Relations, 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 first quarter 2025 earnings release conference call hosted by Steve Bandrowczak, Chief Executive Officer. He's joined by John Bruno, President and Chief Operating Officer; and Mirlanda Gecaj, 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. Bandrowczak.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Good morning, and thank you for joining our Q1 2025 earnings conference call. In the first quarter balanced execution, the benefits of last year's Reinvention-related organizational changes and ongoing Reinvention

initiatives resulted in an improved revenue trajectory and another quarter of double-digit declines in operating expenses, excluding one-time costs and ITsavvy. Sales activity has normalized and the ITsavvy integration and Reinvention-related cost reduction programs are running ahead of plan, placing us firmly on a path for near-term revenue stabilization and growth in adjusted operating income.

Amid an increasingly uncertain and unprecedented operating environment, we remain focused on what we can control, delivering industry-leading document workflow and IT solutions to our more than 200,000 clients and the successful execution of our Reinvention. I commend our team who are working tirelessly to navigate the nearly daily developments in trade policies to ensure we continue providing the workplace technologies our clients need most and do so profitably, all while implementing over 100 Reinvention initiatives designed to further improve our core operations and drive additional operating efficiencies.

Summarizing results for the quarter, revenue of around \$1.5 billion decreased 3% in actual currency and 1.1% in constant currency, inclusive of ITsavvy. Adjusted operating income margin of 1.5% was lower year-over-year by 70 basis points. Free cash flow, in what is our seasonally lowest quarter of the year, was the use of cash of \$109 million compared to a use of \$89 million in the prior year; and adjusted loss per share was \$0.06, \$0.12 lower year-over-year. This quarter's year-over-year decline in revenue on a constant currency basis and the decline in adjusted operating income margin primarily reflects the mix of IT Solutions products and services build in Q1, as well as higher than expected costs associated with the recent trade and macroeconomic-related disruptions.

While the near-term operating environment has been clouded by tariff and trade-related uncertainty, it is increasingly clear that the benefits of our last year's organizational changes and the Reinvention actions taken to date are delivering the intended improvements in Xerox's operating results. This quarter, we saw improvements across a range of important operating metrics. Equipment revenue adjusted for currency, backlog fluctuation, and Reinvention effects declined approximately 1%, a 500-basis point improvement from the pace of decline in 2024. Equipment installation grew 24%, the third consecutive quarter of double-digit growth, driven by initiatives to grow share in A4 and with channel partners, as well as the successful global launch of our new PrimeLink product.

Service of renewal rates for large client contracts were at a multi-year high and in the first full quarter following the acquisition of ITsavvy, synergy realization, IT Solutions order volumes, and the cross-sell opportunities between the Print and IT Solutions businesses are already ahead of plan. These improvements reflect the culmination of intentional, often difficult decisions, taken over the past two years to reengineer Xerox, positioning the company to take advantage of favorable secular trends in and adjacent to Print and IT Services with a streamlined and agile operating structure.

In Q1, we made progress across each of our three strategic priorities for the year. Starting with the execution of Reinvention initiatives. In Q1, sales force productivity advanced 13% year-over-year, a key contributor to this quarter's improved equipment revenue trajectory. Sales productivity improvements reflect a reduced administrative burden on our sales force, enabled by a host of simplification and optimization initiatives recently put in place. These initiatives include standardized bidding, ordering and post-signature processes, and AI-enabled pricing tools which helps our sales team optimize sales opportunities. We also implemented a refined approach to client segmentation, providing our sales organization with greater focus when serving clients and developing bids.

An example of refined client segmentation is the expansion of our inside sales organization to support small and medium businesses in the US. In Q1, we refined our coverage model for 35,000 small client accounts by adding support capacity through our centralized inside sales team. This team will focus on proactive customer support, upsell and cross-sell opportunities, and the retention of clients with lower levels of existing revenue, allowing our

field sales team to focus on providing improved service quality to large clients and the development of new businesses and new logo opportunities. One month into the expansion, the inside sales team is seeing strong growth in pipeline and client engagement metrics, and sales activity in their regions where accounts were transferred is pacing 10% higher year-over-year. We expect initiatives like these and others plan to drive further productivity gains and contribute to our goal of growing equipment share in 2025 and beyond.

Moving to acquisition benefits. The integration of ITsavvy is running ahead of plan with our collective IT Solutions strategies aligned and ITsavvy's people and IT operations now fully integrated. Systems and process integration is expected to be complete by Q3. The vast majority of the expected run rate synergies totaling more than \$15 million have been implemented and are expected to contribute to improve IT Solutions and total company profit in future periods.

Through the design of ITsavvy integration, we also see early signs of success in the cross-sell of IT Solutions to existing Print clients, a key tenet of our acquisition thesis and confirmation of the value we bring to clients when our industry-leading Print and IT Solutions are combined. Mirlanda will provide additional color on early cross-sell success and its contribution to IT Solutions pipeline. Early integration planning for the Lexmark acquisition is well underway. With ITsavvy's integration expected to be complete by the time the Lexmark deal closes, we will focus our complete attention on the integration of Lexmark operations in the second half of this year.

Finally, balance sheet strength. In Q1, when we excluded the impact of finance receivable benefits, improved working capital drove an increase in free cash flow. As a reminder, our top capital allocation priority is the repayment of debt. In Q1, Xerox total debt balance decreased by around \$100 million, following the repayment of secured debt. In April, we issued \$800 million of secured notes, a portion of which will be used to refinance existing debt and a portion of which will be used to fund the Lexmark acquisition. Following the repayment of our 2025 notes and prepayment of our current term loan, we have less than \$200 million of debt obligations coming due until 2028. We will incur additional debt to fund the Lexmark acquisition, but the level of acquired EBITDA is expected to result in a lower pro forma debt leverage level.

I will now hand the call over to John to discuss Reinvention progress made in Q1 and provide an update on Lexmark acquisition.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

Thank you, Steve. As Steve noted, we exhibited greater stability in our business this quarter. With sales activity normalized and execution more balanced, our Reinvention efforts have turned to the execution of more than 100 tactical initiatives to drive further revenue stabilization and improved profitability. These initiatives are grouped across four categories: geographic simplification, operational simplification, commercial optimization and growth, and the realization of acquisition benefits. This quarter, we made progress across each of these categories.

The execution of our geographic simplification program is now largely complete, bringing the total number of countries to 18 where direct operations were transitioned to partners. Our focus in these countries now turns to maximizing profitability and the expansion of business with local and regional distribution partners.

Our operational simplification efforts this quarter were focused on building scalable service capabilities within the Global Business Services organization that leverage technology to drive sustainable cost reductions throughout the organization. Examples this quarter included the creation of an enterprise-wide contract life cycle management platform and the absorption of ITsavvy's people and IT operations functions.

Steve addressed some of the sales productivity initiatives driving commercial optimization and growth and the quick wins associated with realizing the expected benefits of the ITsavvy acquisition. I'll spend a few minutes now providing an update on the pending acquisition of Lexmark. We continue to make progress toward the closing of this acquisition. We received several key regulatory approvals in the past few months, including clearance of HSR in the US, anti-trust in UK and Canada and most major EU countries. Remaining approvals are expected by the end of June. Outside of country-specific approvals, the last significant condition to close is the Ninestar shareholder vote and Chinese securities exchange approval, both of which are expected to take place in the coming months. And as previously disclosed, we secured 32% of the required shareholder vote as part of the acquisition agreement.

We continue to expect over \$1 a share of accretion associated with the Lexmark transaction despite a slightly higher than expected cost of funding and the potential for incremental tariff expenses. Importantly, based on US tariffs currently in place, we expect little to no product cost impact from tariffs on Lexmark's branded business within a few quarters of acquisition close. Lexmark has a large manufacturing facility in Juarez, Mexico, that can support all expected imports of branded product into the US market on a USMCA compliant basis.

In 2024, Lexmark exhibited growth on the top and bottom lines, confirming our acquisition thesis. Revenue grew 9% through share gains in branded A3 and A4 and the expansion of its OEM business into the A3 category. Adjusted operating income grew nearly 40% in 2024, reflecting operating leverage and its own cost reduction and efficiency initiatives. We are actively engaged with the Lexmark team in integration planning and are excited to bring Lexmark's leading A4 platform under the Xerox umbrella and help expand its A3 OEM business.

Before I hand the call to Mirlanda, I want to address Xerox exposure to tariffs on products imported into the US market. Xerox's current exposure to purchases subject to reciprocal tariffs in the US, excluding China, is less than 10% of total company cost of sales. Product purchases imported to the US that are subject to China tariffs are expected to be limited to a low-single-digit percentage of total company cost of sales by the end of 2025. Plans are in place today to shift most China-produced goods to countries with lower tariffs. Our Print Services and Financing business, which is more than 60% of the total print revenue, has minimal reliance on imported products. In IT Solutions, tariff exposure varies by OEM partner, and we expect associated costs to be passed through to end users through price increases or surcharges. Given the fluid and uncertain nature of tariff policies and rate proposals, estimating Xerox's ultimate exposure to tariff-related costs remains difficult.

That said, I'll provide some details to help frame our potential exposures in 2025. Based on tariffs in place on May 1, the expected reduction in operating income, net of price and supply chain mitigation measures already in place or planned, would be around \$50 million in 2025. If China tariffs are reduced from 145% to 60%, we expect to be able to offset the impact of tariffs through a comprehensive set of price increases, surcharges, geographic rebalancing, and supply chain-related mitigation efforts, as well as incremental Reinvention-related savings. This is a very fluid environment, and financial impacts are difficult to forecast. We will do our best to share further forecasted impacts and our mitigation plans as they evolve.

I'll now turn the call over to Mirlanda to discuss the financial results in more detail.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

Thank you, John, and good morning, everyone. As Steve noted, the cumulative effect of Reinvention initiatives implemented to-date resulted in an improved trajectory in revenue and another quarter of double-digit declines in operating expenses, adjusting for Reinvention costs and the inclusion of ITsavvy. In Q1, revenue declined 3% in actual currency or 1.1% year-over-year in constant currency, including the benefit of a full quarter of ITsavvy.

Organic core revenue, which excludes ITsavvy, the impact of backlog fluctuations and Reinvention actions, declined a little more than 2% in constant currency this quarter, an improvement over prior year's 4% pace of decline and in line with our expectations for core revenue declines for the year. The improved trajectory in core revenue primarily reflects lower declines in equipment sales and growth in legacy IT Solutions bookings.

Turning to profitability. Adjusted gross margins declined approximately 220 basis points year-over-year, reflecting higher product costs, the inclusion of ITsavvy, lower print volumes and finance receivable-related fees, and the initial impact of tariffs, partially offset by Reinvention savings. First quarter results do not include any benefits from tariff-related price increases, surcharges or supply chain modifications, which we expect will help offset tariff-related product cost increases in future periods. Adjusted operating margin of 1.5% was 70 basis points lower year-over-year due to lower revenue and gross profit and higher advertising expense, partially offset by Reinvention savings, lower bad debt expense, and the inclusion of ITsavvy, which carries a lower operating expense base than our Print business.

A continued focus on cost reduction resulted in a decline in operating expenses of \$26 million. Included in operating expenses are \$9 million of Reinvention-related costs and \$12 million of ITsavvy operating expenses. Excluding these impacts, operating expenses declined \$46 million, a reduction of 10% on a year-over-year basis. Adjusted other expenses net were \$32 million, \$8 million higher year-over-year due primarily to higher net interest expense. Adjusted tax rate of 60% compared to a negative 22% in the same quarter last year. The current year rate reflects lower benefits from certain current year losses and expenses whereas the prior year rate reflected tax benefits from the redetermination of certain unrecognized tax positions.

Adjusted loss per share of \$0.06 was \$0.12 lower than prior year, reflecting lower adjusted operating income, higher interest expense, and unfavorable currency. GAAP loss per share of \$0.75 improved \$0.19 year-over-year and includes a charge to tax expense related to the establishment of \$59 million in valuation allowances totaling \$0.47 per share and after tax financing-related charges associated with our recent debt offering of \$14 million or \$0.11 per share. The prior year quarter included after tax Reinvention-related charges of \$100 million or \$0.81 per share.

Let me now review segment results. We have updated our segment reporting to reflect changes in our organizational structure and strategic priorities following the successful acquisition of ITsavvy in November 2024. Effective Q1 2025, we introduced a new operating segment, IT Solutions, to better reflect the contribution of IT Solutions to the long-term growth of Xerox. This new segment includes ITsavvy, as well as IT-related products and services previously reported under the Print and Other segment. Our former XFS segment is now reported within Print and Other.

Starting with Print and Other results, Q1 equipment sales of \$284 million declined 2.1% in actual currency and 0.7% in constant currency. A reduction in backlog in the current period offset the effects of Reinvention-related actions, resulting in a normalized or core equipment decline of around 1%, an improvement trajectory over the prior year's core mid-single-digit pace of decline and better than what we believe is the underlying rate of decline in the industry.

For the third consecutive quarter, total equipment installations grew at the double-digit pace and exceeded equipment revenue declines. Entry installations grew about 33%, reflecting our efforts to gain share in the A4 category. Entry installations outpaced revenue growth due to higher mix of low-end product and sales through indirect channels. Mid-range installations and constant currency equipment revenue both grew mid-single digits, aided by the global launch of our PrimeLink C9200 Series. As a reminder, improved entry and mid-range installations will support post-sale trends in future periods. High-end equipment installations and revenue both

declined year-over-year, reflecting the ongoing evolution of our Production Print portfolio and high-end offered simplification actions taken last year.

Print post-sale revenue of around \$1 billion declined 11.2% in actual currency and 9.2% in constant currency. Excluding the effects of Reinvention actions, core Print post-sale revenue declined around 5% in constant currency, reflecting lower supplies and page volumes offset by growth in Digital Services. Print segment adjusted gross margin of 31.4% declined 140 basis points year-over-year due to higher product costs, lower print volumes and finance receivable-related fees, and the impact of tariffs, partially offset by Reinvention savings. Print segment margin of 3.2% declined 90 basis points due to lower revenue and gross profit, partially offset by Reinvention savings.

Turning to IT Solutions. In Q1, IT Solutions revenue and gross profit increased more than 100% year-over-year, reflecting the inclusion of ITsavvy in segment results. Pro forma for the acquisition of ITsavvy, IT Solutions gross billings, a useful metric for understanding the volume of our business activity and a metric used internally to manage performance, increased slightly year-over-year. The increase in pro forma gross billing reflects growth in infrastructure and networking products and associated advanced solutions, offset by lower endpoints, reflecting the timing of large deals in the prior year. Despite an increasingly uncertain operating environment and elevated client caution observed at the end of the quarter, IT Solutions order activity in Q1 was strong.

Pro forma gross bookings, a measure of signing activity, increased 30% year-over-year, with particular strength in infrastructure and networking endpoints and advanced solutions. Total IT Solutions pipeline since the date of the acquisition increased 26%, reflecting the same trends. An important contributor of expected growth for the IT Solutions business is the ability to grow IT Solutions penetration of Xerox's existing Print client base, which is currently low-single digits. Early cross-sales traction is encouraging. In the first quarter, IT Solutions added more than 20 deals to its pipeline, sourced from existing Print clients with a total signing value of over \$20 million. IT Solutions gross profit grew \$18 million and gross margin of 17.1% expanded 280 basis points year-over-year, due primarily to the inclusion of ITsavvy, which has a higher gross margin profile than the legacy IT Solutions business. Segment profit grew \$6 million year-over-year due to the inclusion of ITsavvy. As Steve noted, the vast majority of run rate synergies expected from ITsavvy acquisition have been implemented. Accordingly, we expect IT Solutions segment profitability to expand throughout the remainder of the year.

Let's now review cash flow. Operating cash flow was a use of \$89 million, \$10 million higher than the prior year quarter due to lower adjusted net income, partially offset by lower incentive compensation payments. Lower proceeds from finance receivables were largely offset by improvements in working capital. Investment activity was a source of cash of \$6 million compared to a use of cash of \$17 million in the prior year, due primarily to higher proceeds from the sale of assets. Free cash flow was a use of \$109 million compared to a use of \$89 million in the prior year, reflecting the changes in operating cash flow previously noted and slightly higher capital expenditures.

Q1 typically marks a seasonal low in free cash flow generation for Xerox, so it is not uncommon for free cash flow to be negative in the first quarter of the year. We expect seasonal improvements in operating income, continued working capital discipline, and additional proceeds from finance receivables to deliver positive free cash flow in quarters two through four, with quarter four being our seasonally strongest quarter of free cash flow generation. Importantly in Q1, free cash flow, excluding the benefits of finance receivables, improved more than \$60 million year-over-year, reflecting working capital discipline, partially offset by the items previously mentioned. Financing activity consumed \$159 million this quarter, reflecting \$104 million of net debt repayments, dividends of \$39 million, and \$16 million of other financing cash outflows.

Moving to capital structure. We ended Q1 with \$390 million of cash, cash equivalents, and restricted cash. Total debt of \$3.3 billion declined around \$100 million from Q4 levels due to the repayment of secured debt. Around \$1.7 billion of the remaining \$3.3 billion of outstanding debt support our finance assets with remaining core debt of \$1.6 billion related to the non-financing business. As Steve noted, we recently raised \$800 million of debt to repay \$95 million of our Term Loan B and the remaining portion of our 2025 notes due in August, as well as fund a portion of the Lexmark purchase price. Following the repayment of the 2025 notes due in August and the prepayment of our term loan, we only have around \$200 million of debt coming due until August 2028.

I'll now provide an update on Reinvention savings. During the first quarter, we implemented initiatives with an expected \$50 million of incremental gross cost savings, increasing the amount of expected gross cost savings from actions currently in place to around \$225 million, the full amount of which is expected to be realized by the end of 2026, in addition to a portion of the \$175 million of savings from actions not yet implemented. We continue to expect more than \$100 million of gross cost savings in 2025 and are regularly adding to our Reinvention savings pipeline of more than \$700 million.

Finally, I will address guidance. Given the evolving and fluid nature of proposed tariff policies and the uncertain impact of future policy outcomes on macroeconomic conditions, we have not adjusted our full-year outlook. As such, our guidance excludes the potential adverse effects of tariffs and any associated impact on the economy. Guidance also excludes any impact from the pending acquisition of Lexmark. We see no discernible effect on demand from prevailing concerns about the economy or the initial implementation of tariff-related price increases. Therefore, we expect minimal tariff or macro-related impacts to our financial results in Q2.

In the second quarter, we currently expect a revenue decline in constant currency, consistent with that of the first quarter, due in large part to the mix of IT Solutions products and services expected to be built in Q2. Adjusted operating margin is expected to be between 4% and 4.5%, lower than the prior year quarter to account for the phasing of tariff-related price increases relative to costs incurred and the timing of Reinvention savings. For purposes of modeling, adjusted earnings per share in quarter two, we expect a similar adjusted tax rate to that realized in Q1 due to lower allowed deductions of certain expenses, but no change in our cash taxes.

In the second quarter, non-financing interest expense net is expected to be slightly higher quarter-over-quarter. It is important to remember our business is naturally hedged to short-term fluctuations in demand as more than 60% of Xerox revenues are derived from long-term contracts and our suite of productivity solutions are designed to provide clients with IT-related cost savings. Further, free cash flow tends to fluctuate less than adjusted operating income due to our ability to improve working capital and increase proceeds from finance receivables independently of operating results. We will provide updated 2025 guidance, including a more refined view of tariff-related impacts on full-year results following the transaction close.

To recap, a fluid tariff and trade policy environment has resulted in an increased level of near-term operating uncertainty, particularly as it relates to product cost and the potential impact of higher product and services prices on demand. We are working actively with supplier partners to minimize tariff-related cost increases and will monitor client sentiment and demand in response to price increases and surcharges used to mitigate the potential financial impact of tariffs. We will manage through this period of uncertainty, leveraging the improved operating flexibility, predictability, and cost efficiencies afforded by our Reinvention strategy.

We'll now open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Ananda Baruah with Loop Capital. You may proceed.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Hey, guys. Yeah. Good morning. Appreciate the questions and all the helpful context, by the way. That really covers a lot of the waterfront. So, excuse me, let me just start with this. You're not seeing any discernible impact from macro yet. Are you getting – I guess, sort of conversationally, what is some of the communications and messaging that both your sort of large corporate customers you guys deal with directly are conveying to you? And then what are the VARs telling you about SMB right now? So some of the underlying context and I have a quick follow-up. Thanks.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

A

Sure. It's John. I'll kick it off and I'm sure Steve will add some commentary as well, as we spent a lot of time with our teams in the field and in front of our clients. It's a volatile environment and people are monitoring and looking at everything. You are correct. We have not seen and did not see real impact in Q1 other than kind of the tail off that Mirlanda mentioned with the [indiscernible] (00:32:33) China tariffs and before our price increases and so forth went out to mitigate them. Everyone is expecting similar type issues and everyone is in a similar boat.

I would say that there was a more of an acute focus on some of the SMBs and others if they were dependent on previously, I'd say a month or so ago, DOGE and its related potential cuts in areas if they were funded through government and other government-related areas, that has died down quite a bit from where it was. We just saw people wondering, am I going to be funded for certain upgrades and so forth and a little bit trepidation as to holding back as to whether or not they could move forward. But we've seen that begin to ease off a bit. It could heat up again, obviously, as these things are fluid and change, but that's kind of run the gamut. And it's been very consistent between the reaction in SMB as well as in enterprise. There's not been a discernible difference.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah, Ananda. I'll add a couple of things on the macro trends, right. As you think about just endpoints and PCs and the overall Windows 11 upgrade and AI PCs, there's going to be a lot of spend in driving and refreshing those endpoints. For security reasons, for productivity reasons. We're seeing more and putting the infrastructure inside of data centers that allow for the driving of AI implementation as customers are really trying to drive productivity. So, we will see spending where it drives productivity and drives overall bottom line performance, as well as we'll see spending in areas where customers have to upgrade because of end of life or because of next-generation Microsoft or next-generation endpoint devices.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

And just one point to make here is what we've seen Ananda is, yes, there are some delays and that's what we meant when we said the softening. But we have not seen cancellations as a result of what we are experiencing in the market right now.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Got it. That's all really great context. Appreciate that. And I guess my quick follow-up, it sounds like the ITsavvy high level metrics sound really positive. Any I guess underlying context you can share about things that you did or that occurred as you continue to integrate ITsavvy into the broader corporate processes would be helpful. Thanks.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah, Ananda. We're very encouraged. We talked a little about this. The total TAM or the wallet share that we can go acquire by bringing ITsavvy's products and services into the existing account base that we have. Just to give you a data point, if we penetrated literally just 5% of our existing accounts today with ITsavvy and IT Solutions, we can double that business literally. That's the type of opportunity we have in front of us. We saw really good, encouraging signs. We talked about the pipeline build in Q1. We talked about the bookings in Q1. But more importantly, we're seeing the adoption of the conversations across our entire Print sales team now having the conversations with our clients around what ITsavvy can bring and what IT Solutions can bring in the future.

So, we're excited about that penetration. We've got a big opportunity out there in terms of expanding our wallet share in existing accounts. By the way, we're seeing it on the other side as well where we have ITsavvy having their clients now adopting and driving print initiatives. So, clearly, the cross-sell is going to work. We got a long way to go to get full penetration, but the opportunity is very exciting. We're starting to see early shoots of that. I will also indicate, during an integration, you normally see a slowdown and a pause of sales, we're actually seeing the opposite. We're seeing acceleration of pipeline and we're seeing acceleration of bookings. So, we're very excited about what's going on right now.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

A

And I'll add the color to that as to why. We talked about this previously. We did a reverse in this business. We acquired an outstanding team. The Chief Revenue Officer, the Chief Financial Officer, the CEO of the company, the Head of Sales, the entire team has been incredibly effective and we put our business into their business and we've seen great collaboration between, as Steve pointed out, our Print sales force and theirs. So other than coming together, they've done a tremendous job and exceeded expectations with regard to the speed in which not only they executed the beginning parts of their synergy plans to control cost, but how collaboratively everyone is working to develop the pipeline.

Look, let's face it, Print is not the sexiest thing to sell all the time to a CIO. As Steve pointed out many times over, we've been able to change the conversation, the dialogue, and really strengthen our Digital Services discussions, our Print and document processing discussions, and now IT Solutions. So, there's more relevance in the discussions and there's excitement in the field to bring these teams together. And I'm very pleased with the alignment and the execution under that team in the reverse, in the way we described it, it's working as planned.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah. Now, remember, we did a study when we talked about before we were going to get into this business, we went and we polled all of our existing clients' propensity to buy Xerox IT Solutions. Overwhelmingly, they said they trusted us, right. And we're seeing that play out. They trust us in this environment and they like what we're bringing to them as offerings going forward.

Ananda Baruah*Analyst, Loop Capital Markets LLC*

That's really great, guys. I really appreciate it. Thank you.

Operator: Thank you. Our next question comes from Erik Woodring with Morgan Stanley. You may proceed.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Hey. Good morning, guys. Thank you for taking my questions. Maybe the first one for you, Mirlanda, was just, I understand you haven't necessarily seen an impact to demand, and the tariff situation remains fluid. I'm just curious, the thought process behind maintaining full-year guidance as we sit here today. Just, I think there's a perception that growth is slowing. I understand you have long-term contracts but at the same time you noted \$50 million net of potential tariff costs that are not included in your guidance. And so, just given how your stock has performed, why not set the bar lower rather than potentially incur, what I would call negative estimate revisions in the event tariff policy doesn't change and/or demand slows? And then I have a follow-up, please. Thank you,

Mirlanda Gecaj*Chief Financial Officer, Xerox Holdings Corp.*

Erik, thank you for the question. So, our thoughts around guidance is that, as we mentioned, tariffs are not enacted, they're not final. They could change tomorrow. Our goal is to deliver and push for what we have put for ourselves to deliver for the year. So, we maintained the guidance until the tariffs are final. We gave the impact, right. So, the investors have an idea as to what that would be. We felt that changing the guidance now while tariffs are so fluid, it wasn't very helpful for the investors and also for us to keep ourselves accountable and be able to deliver what we have planned for 2025 and beyond.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Okay. Okay. I appreciate that. And then my follow-up and it could be for Steve, John or you Mirlanda. It's just I appreciate the new disclosures on IT Solutions. As we just think about the margin rates that we see for that business right now, realizing that you can gain benefits of scale, realizing that you should be able to capture synergies, as you've mentioned. How do I think, if I look one, two, three years out for this business, how do I think about the gross and operating margin rates for your IT Solutions business? Where can they go to as you sit here today and think about the initiatives and growth opportunities you have in place? Thanks so much.

Steven John Bandrowczak*Chief Executive Officer & Director, Xerox Holdings Corp.*

Yeah. Thank you, Erik. A couple of things there. We look at how do we drive productivity and we can get to double-digit operating profit in that space, right. Well it's got lower margins, got lower SG&A, and lower cost. And so we're trying to drive that growth in that business and get to double-digit operating profit. It has a lower SG&A. Remember, we'll be able to take that entire portfolio, run it through both our partner channel and our existing sales channel, so we'll be able to hold our SG&A flat as we go drive the revenue on that business.

John G. Bruno*Chief Operating Officer, President & Director, Xerox Holdings Corp.*

Yeah. And we've discussed this in previous calls. This is a business that you're absolutely correct from a gross margin perspective, doesn't have the same type of ambition as we've had. But for an operating profit, it does

because it's mix of services and the company that we acquired, it's not a reseller. It's more a value-added reseller. Endpoints, although they're able to position and sell endpoints more profitably than Xerox has, which is part of the reverse part of this, and deal with the full life cycle of those endpoints, including reclamation. They've been able to get good gross margins competitive with Print in a commodity business in that space that runs aligned with the industry. And then on top of that, all the additional cloud-based services and all the trajectory that Microsoft AI-enabled PCs and security and all of that type of stuff, that has very healthy operating margins associated with the flow through and that's where the mix within that business is positive, as well as the overall mix shift of IT Solutions to Print.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Erik, I'll say the other on margins from Q1 data, just you look at our growth in entry and A4, right, that has lower margins on the product sales. But as you look at future quarters, we pulled through supplies which has higher margins, right, and that's a very strategic tactical thing for us to go grow that entry, which you saw at 33% growth in our entry, very strategic for us and that will have higher margins in the future as we pull through supplies [indiscernible] (00:42:44). Yeah.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thanks, guys, for all the color and good luck.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Thank you.

Operator: Thank you. Our next question comes from Samik Chatterjee with JPMorgan. You may proceed.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning and thanks for taking my question. I guess the first one, if I can ask on post-sale and I'm looking at the Q1 performance there where in constant currency, the decline was about 9%. And I know you don't really break out the impact of non-strategic revenue and other Reinvention items to post-sale specifically. But just looking directionally, it looks like a mid-single-digit decline at least. Maybe if you could talk about the drivers there in terms of what you're seeing in terms of the – what's driving the decline on an organic basis in that post-sale revenue? Where do you expect to exit the year? And in relation to sort of stabilization trends, what you're seeing on that post-sale revenue, particularly given that you have...

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

A

No. You're 100% correct that – yeah, the decline in core Print sale revenue does reflect lower supplies, managed print volumes, and most of that has to do with just the number of machines because that is all derived by price per page, number of pages printed, number of machines in field. And as, of course, we normalize and rationalize that part of it out through the Reinvention, that's exactly correct is what you saw is the 9.2% constant currency, 11.2% in actual currency. Though we expect that core Print post-sale trend to improve, they're going to improve following a lot of the extended period of installation growth that we've had. Steve just pointed out entry, mid, supplies

typically lag about six to nine months and then the services [indiscernible] (00:44:23) follows after that. So, that will stabilize and continue to improve.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

Yeah. And, Samik, in relation to just Print and Other segment as it relates to post-sale there and revenue, you asked about the one-off items. If you were to exclude the backlog, Reinvention, and intentional reduction of non-strategic revenue that we took in 2024, that impact would be about 4% decline. So, constant currency 7.6%; excluding the impact 4% decline, the trajectory is expected to improve, and John mentioned all the reasons around supplies, around the installation base, that has been growing double-digit in the last three quarters. And our post-sales usually follow six to nine months after those installations.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Got it. And quickly for my follow-up, you mentioned in the prepared remarks that free cash flow is more resilient than the operating profit performance. And you mentioned sort of the – I believe sort of pull the lever on finance receivables. Can you just outline in terms of maintaining the free cash flow guide for the year, what are you seeing in terms of core cash flow from the business related to what are the incremental changes you're making on the finance receivables that's enabling you to maintain the free cash flow guide?

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

Yeah. So, as it relates to guidance, right, we maintain the outlook and we're not including impacts of tariffs there. But as it relates to the cash flow for 2025, when we guided, we said our free cash flow will be between \$350 million and \$400 million, and that would be lower than the prior year. And the reasons why that's lower is related to a reduction in finance receivable forward flow benefits in 2025, which will be offset by improved adjusted operating income and working capital. We still expect those to be the same in 2025. Now, beyond 2025, from a trend perspective, we expect our free cash flow to approach historical ranges of about 40% of adjusted operating income. And as that operating income improves and working capital headwinds and Reinvention abate, you'll see those results improving as it relates to the free cash flow. Lexmark acquisition, just wanted to put it out there and bring it to everybody's top of the inbox, it is expected to be accretive immediately as it relates to free cash flow with accretion of the \$200 million of synergies that are realized within a two-year period.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Okay. Maybe if I can just seek a quick clarification here. So in terms of the finance receivables and the benefit from that to free cash flow, that's largely unchanged relative to your prior expectation for 2025...

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

That's correct.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

That's correct. The Q1 – you know, with starting Q1, it's slightly lower than expected. But full year, we expect to have the same benefit from finance receivables in 2025.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Thank you. Thanks for taking my questions.

Operator: Thank you. I would now like to turn the call back over to Steve Bandrowczak for any closing remarks.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Recapping today's call, improved execution and cumulative benefits of Reinvention actions taken to date drove stabilization in revenue and a double-digit reduction in operating expense for the quarter. Overall revenue mix continues to improve led by growth in A4 equipment and IT Solutions. As we progress to the remainder of the year, we will continue to focus on what we can control and adapt as needed to changes in tariff policies. The pending acquisition of Lexmark is expected to further strengthen the momentum we currently see in operating results and contribute to our target of sustainable growth in revenue and adjusted operating income and free cash flow. I thank everybody for joining today's earnings call.

Operator: Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.