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Xerox Holdings Corp. (XRX)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Xerox Holdings Corporation Third 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. Greg Stein, Vice President and Head of Investor Relations.

Greg Stein

Vice President, Investor Relations, Xerox Holdings Corp.

Good morning, everyone. I am Greg Stein, Vice President and Head of Investor Relations at Xerox Holdings Corporation. Welcome to the Xerox Holdings Corporation third quarter 2025 Earnings Release Conference Call hosted by Steve Bandrowczak, Chief Executive Officer. He is joined by Louie Pastor, 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 express 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 would 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 Q3 2025 earnings conference call. It has been four months since the Lexmark acquisition closed, and I am extremely pleased with the progress both the Xerox and Lexmark teams

have made in planning and executing the integration. Their efforts have positioned the combined company for long-term success by harnessing the strengths of both organizations, offerings, and sales approaches.

As part of this progress, we have appointed several Lexmark executives in key leadership roles, such as product development, business services and IT. This blend of legacy Xerox and Lexmark leaders across the company has posted a collaborative mindset towards synergy realization, uncovering numerous new opportunities for value creation. As a result, in just the first 100 days post-closing, we have already identified an additional \$50 million of synergy opportunities, some of which we expect will be realized in 2026.

I am however, disappointed with Q3 results, macroeconomic challenges weighed on top line performance. Revenue of \$1.96 billion was up roughly 28% in actual currency and 27% in constant currency, reflecting the inorganic benefits of the Lexmark and ITsavvy acquisition. Pro forma for these acquisitions, revenue declined approximately 8%. Adjusted operating income margin of 3.3% was lower year-over-year by 190 basis points. Free cash flow was \$131 million, an increase of \$24 million over the prior year and adjusted earnings per share of \$0.20 decreased \$0.05 year-over-year.

This quarter we experienced continued disruption associated with tariff and government funding-relating uncertainty, which primarily affected transactional print equipment revenues and to a lesser extent, supplies revenue. Throughout the quarter, we observed continued delays in purchasing decisions among clients, particularly those reliant on federal, state and local government funding. General economic uncertainty also resulted in delays in purchasing among our commercial client base and distributors.

However, page volume trends remain consistent, and branded supply usage was in line with expectations, both of which indicate unchanged demand for printed pages. Therefore, we expect delays in equipment purchases to materialize in future periods as tariff, policies, and government funding decisions become more clear and the macroeconomic environment becomes more stable. Economic uncertainty did not slow the progress of our IT Solutions business, which grew pro forma revenue by double-digits in the quarter, supported by a balanced portfolio of offerings that address clients most pressing IT infrastructure needs and ongoing initiatives designed to further penetrate Xerox existing print client base.

As our attention increasingly turns to the integration of Lexmark, we remain focused on the balanced execution of three strategic priorities. Execute Reinvention, realize acquisition benefits, and balance sheet strength. I will provide an update on each. Starting with the execution of Reinvention and commercial optimization. We have several new product launches across Print and IT Solutions over the next 18 months. Two weeks ago, we announced the largest set of enhancements to our Production Print portfolio, since last year's decision to stop manufacturing certain high-end production equipment.

At PRINTING United, a leading industry event, Xerox debuted three new production printing presses, the IJP900, which marks the return of Xerox to the growing mid-volume inkjet market and two new products under the Proficio family name, which comprise our next generation of digital color presses serving the entry color production mid and high markets. We expect this and future launches to provide incremental revenue next year. These new products are an integral part of our leading end-to-end production ecosystem, which uses AI-driven workflows, personalization, and advanced analytics to make the print jobs of our most demanding Production Print clients more efficient and profitable.

As the Lexmark integration planning work progresses, we are carefully analyzing the optimal approach to serving the more than 200,000 combined Xerox and Lexmark clients with an enhanced portfolio of print, IT, and digital services as efficiently as possible. This work has revealed an opportunity to more cost effectively serve legacy

Xerox clients by expanding our presence with key distribution partners, an approach Lexmark has successfully deployed to drive better operating efficiencies and higher operating margins.

We recently took this approach in parts of upper Midwestern United States, where we announced an agreement with Loffler Companies to transfer the servicing and sales coverage for small and mid-sized businesses in the region. Further underscoring our commitment to sales efficiency and productivity, last quarter, we advanced our inside sales strategy with the opening of a new office in San Antonio with plans to scale to 180 specialists at the facility over the next several years.

This model enables us to reach more clients efficiently and at scale, while AI-driven insights helps us analyze each stage of the sales cycle, identify process bottlenecks and implement targeted actions to improve performance. While currently a small part of ESR, these initiatives are already delivering results with the 27,000 accounts transitioned into inside sales showing greater than 30% ESR growth year-over-year. Early integration work from the Lexmark acquisition has also contributed to the acceleration of our ongoing operational simplification efforts. This quarter, we consolidated best practices from the two companies legacy Global Business Services organizations to create a streamlined and more comprehensive set of centralized operating processes.

Managed by GBS and supported by a unified technology stack, integrated data architecture and a captive offshore labor model, which Louie will discuss in more detail. This structure provides the optimum foundation for scaling AI-driven operational efficiencies and enhancing our cash conversion cycle. In anticipation of future AI-driven savings, this quarter, we launched an AI center of excellence to design and distribute best practices around the adoption of enterprise AI tools and develop business plans for rapid adoption of function-specific AI-enabled operational enhancements. While still early days, we expect AI productivity solutions to de-risk if not add to existing synergy savings opportunities.

Moving to acquisition benefits. As noted in the prior quarter, the ITsavvy integration is largely complete. This quarter, the IT Solutions team seamlessly transitioned legacy Xerox IT Solutions, ERPs and CRMs in the US to legacy ITsavvy's technology platforms, a crucial enabler of future cross-sales activities and sales acceleration more generally. Even prior to this transition, we continue to see strong progress in cross-sell pipeline build and conversion activities. In the third quarter, year-to-date sales activity of new IT Solutions sales to Xerox print clients exceeded \$50 million across more than 150 clients, with an in-quarter conversion to bookings of roughly \$15 million.

We took the initial step towards realizing material Lexmark-related synergies this month, with the elimination of more than 1,200 roles. This action and other non-labor savings are expected to result in run rate gross cost savings of more than \$125 million by the end of this year. Finally, balance sheet strength, as a reminder, the Lexmark acquisition resulted in an increase in total debt, but was immediately delevering. When the expected \$300 million in synergies are included in a pro forma LTM EBITDA, gross debt leverage is currently a manageable 4.3 times. This quarter we returned to positive free cash flow and took net debt down by \$226 million. With the Lexmark acquisition now closed, we expect most, if not all, free cash flow to be used to repay debt. Our goal remains a target 3 times total debt to EBITDA.

I'll now hand the call over to Louie Pastor, who was recently named President and Chief Operating Officer, succeeding John Bruno. Louie, has been with Xerox for seven years, holding increasingly senior positions within the organization, including, most recently Chief Administration Officer and Global Head of Operations. In that role, Louie played an integral part in helping design and execute the core components of Reinvention, making him the ideal successor to John Bruno as we continue into the next phase of Reinvention.

Louis J. Pastor

President & Chief Operating Officer, Xerox Holdings Corp.

Thank you, Steve. I am honored to take on the role of President and Chief Operating Officer. Over the last seven years, I have helped orchestrate significant change at Xerox, changed our corporate structure, our operating model, and more recently, our asset base. In each case, these changes were well thought out, deliberately executed, and designed to ensure Xerox, a company with more than 100 years of history, thrives as a leading provider of services-led, software-enabled workplace solutions.

Reinvention has been a long and sometimes uneven path, but with the ITsavvy and Lexmark acquisitions completed, we have now executed on the core strategic components of this journey, which means we now control the levers required to deliver the expected financial outcomes of Reinvention and can focus fully and completely on execution of the core operational and commercial components of Reinvention.

Operationally, we are focused on combining the best-in-class capabilities of both legacy Xerox and Lexmark, optimizing our labor strategy and standardizing the consolidated enterprise on key platforms for growth that combine people, process and technology. For example, as part of our shift from a geographic operating model to a business unit operating model in early 2024, we launched a Global Business Services organization to centralize, standardize, and streamline the company's support and operational functions across regions, business units and service lines. Thereby, lowering operating costs, improving quality, and enabling continuous improvement.

We are now accelerating our progress by adopting best practices and proven capabilities from Lexmark's award winning GBS organization that was built and refined over multiple decades. These best practices include things like unified data governance to enable real time insights and automation. While the proven capabilities include an integrated network of global capability centers with agile delivery models. These global capability centers, when combined with changes we previously made when establishing GBS, unlock significant opportunities for Xerox.

For instance, in 2024, as part of the establishment of GBS, we negotiated new commercial agreements with our outsourced labor providers, giving us greater control and flexibility. With Lexmark's captive offshore and nearshore centers now available to the entire combined organization, we are taking full advantage of this control and flexibility to consolidate operations, reduce costs, improve performance and deliver better client, partner, and employee experiences.

In August, less than 60 days after closing on the acquisition, I traveled to Lexmark's largest global capability center in the Philippines, where we were recently ranked as a top five IT employer by the Philippine Daily Inquirer. I had the privilege of meeting and spending time with many of the 1,800-plus team members based there, working across engineering, IT, cybersecurity, sales operations, and service delivery, among other functions. Their talent, professionalism and pride in their work were truly inspiring. The genuine care for what they do and their shared sense of purpose came through in every interaction. I can't wait to meet with our teams in the global capability centers in Hungary, India and beyond in the coming quarters.

Our ability to leverage these centers is only possible because of the operating model shift we executed in early 2024. And their creation was always part of Xerox's GBS roadmap, but with Lexmark's assets, capabilities and continuity of leadership, we are now able to advance the progress of GBS by orders of time and magnitude. A key contributor to our increased synergy expectations.

Technology is fundamental to enabling the benefits of a more robust GBS organization. To that end, we made the decision this quarter to adopt and enhance Lexmark's existing technology stack, rather than continue working

toward consolidating Xerox on a net new build. The technology transition will take several years to implement in full across the globe, but by leveraging an existing system that already delivers better operational outcomes together with in-house development expertise, the business benefits are irrefutable, the change management is more streamlined, and the implementation process is greatly de-risked.

Commercially, within print, we are focused on evolving our offerings in several critical ways. From a services perspective, we are focused on improving the value proposition and reducing the cost of providing managed print services. And from a technology perspective, we are focused on leveraging Lexmark's A3 platform, as well as developing new high-end OEM partnerships like the recent partnership we announced with Kyocera to improve our competitive position. This quarter, the product development and delivery teams finalized plans to adopt Lexmark's A3 technology at Xerox, which will decrease our reliance on existing suppliers and reduce the overall cost of our products, ultimately, providing tailwinds to longer term gross margins.

We plan to roll out the Lexmark produced A3 product to certain partners in our Eastern European markets in Q4 with a larger global rollout planned in 2026. This platform is more profitable for Xerox on day one, as well as over the life of the product, given Lexmark's focus on design for serviceability. As a result, we expect our new A3 platform to require far less service intensity than existing models, resulting in higher managed print services margins and improved client satisfaction.

As Steve mentioned, our commercial focus within Reinvention is not limited to offerings. It extends to our routes to market. This quarter we began segmenting the combined Xerox and Lexmark client bases by size and vertical, which will enable us to develop a long-term coverage model that optimizes our cost to serve and aligns our offerings for maximum traction based on the needs of specific economic buyers and end users. We will provide more details on this new coverage model in future quarters.

One of the key pillars of Reinvention is to drive long-term sustainable growth. While we enjoy the benefit of the contractual nature of managed print contracts, which last on average four to five years, it does limit natural opportunities to grow wallet share within those existing accounts. With our expanded IT Solutions business as a result of the ITsavvy acquisition, we now have reasons to call on our clients every single day, providing Xerox with more opportunity to cross-sell, up-sell and penetrate both new and existing accounts. The acquisition of Lexmark only further expands this addressable market and enables our sales reps with a greater value proposition for our clients and partners.

Lastly, I will provide an update on Lexmark synergies. Over the course of the first 100 days post-close, we have held workshops and strategy sessions with each of the key functions responsible for delivering our synergy plans. These workshops have revealed \$50 million of upside to our latest synergy plan, some of which is expected to be realized in 2026. The implementation of these synergies is managed by the same enterprise transformation office that has successfully delivered more than \$500 million of Reinvention related gross savings and profit opportunities since 2023. We currently have 16 integration workstreams with more than 100 initiatives and a broad cross-functional team of several hundred people across both organizations engaged in the identification and realization of these synergies.

In summary, we are making meaningful progress integrating the two companies. As a result, we increased the Lexmark synergy forecast to at least \$300 million, which firmly places expected savings from Reinvention as a whole north of \$1 billion. These savings, when combined with an optimized go-to-market organization, selling offerings with greater secular demand mapped to a client base, segmented by size and vertical are expected to drive revenue stabilization and a return to double-digit adjusted operating income in the next few years.

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

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

Thank you, Louie. And good morning, everyone. I'm recovering from a cold, so my voice may sound a bit raspy. Thank you for your understanding. As Steve mentioned, the third quarter reflected a continuation of uncertain macro environment we saw earlier in the year. Despite these near-term challenges, we continue to execute with discipline and are making meaningful progress on cost savings.

Further, we had another quarter of strong growth in IT Solutions. Q3 includes a full quarter of Lexmark results. For comparability purposes, we have provided pro forma comparisons with the prior year period, which assumes both ITsavvy and Lexmark had been acquired as of the third quarter 2024. These pro forma comparisons will be the focus of my prepared remarks.

Revenue grew roughly 28% year-over-year, including the benefits of ITsavvy and Lexmark acquisitions. On a pro forma basis, revenue declined about 8% in actual currency. Core revenue, which excludes deliberate exits and non-strategic reductions, declined roughly 5% this quarter on a pro forma basis, consistent with Q2, reflecting a continuation of the macroeconomic and policy-related uncertainty leading to clients deferring equipment purchases. These headwinds primarily affected the Print segment. IT Solutions showed continued strength, growing revenue double-digits on a pro forma basis, led by public sector deployments, expanded cloud and networking activity, and increased cross-selling momentum.

Turning to profitability. Adjusted gross margin of 28.9% was down 350 basis points, reflecting higher tariff and product costs. On a pro forma basis, adjusted gross margin also declined approximately 380 basis points year-over-year. Key drivers of the declines include tariff charges, net of price mitigation, higher product costs and revenue mix. These factors were partially offset by Lexmark's contribution and Reinvention benefits. Adjusted operating margin of 3.3% was a 190 basis points lower year-over-year on a reported basis and 370 basis points lower on a pro forma basis, due primarily to lower gross profit, partially offset by Reinvention savings.

While some Reinvention initiatives were delayed due to considerations around integration activities, we remain on track to achieve our cost reduction goals and to realize incremental Lexmark gross run rate synergy benefits ahead of schedule. Despite the delay, our continuous focus on cost reduction, resulted in a decline in adjusted operating expenses.

Excluding \$50 million of Reinvention, transaction-related costs and Lexmark post-combination compensation expense, our operating base was down around 9% year-over-year. Adjusted other expenses net was \$85 million, \$52 million higher year-over-year, due primarily to higher net interest expense associated with Lexmark acquisition financing. Adjusted tax rate of 235%, compared to 27.7% in the same quarter last year. The current year rate reflects our geographical mix of earnings and an inability to benefit from certain current year losses and expenses.

Adjusted EPS of \$0.20 was \$0.05 lower than the prior year, primarily due to lower adjusted operating income and higher interest expenses, partially offset by tax benefits. GAAP loss per share of \$6.01 was a narrower loss of \$3.70 year-over-year. The improvement primarily reflects an after-tax non-cash goodwill impairment charge of around \$1 billion and a tax expense charge of \$161 million in the prior year quarter.

Q3 2025 GAAP loss included an inventory related purchase accounting adjustment from the acquisition of Lexmark of \$85 million or \$0.67 per diluted share and a tax expense charge of \$467 million or \$3.68 per diluted share related to the establishment of a valuation allowance against certain deferred tax assets.

Let me now review segment results. For Print and Other segment, Q3 equipment sales of \$383 million, increased 13% in actual currency and about 12% in constant currency. Pro forma for the inclusion of Lexmark, equipment sales declined about 16% in actual currency. Excluding the effects of Reinvention-related actions and other one-time items, pro forma core equipment sales declined around 12%. I'll provide additional color for each legacy organization to help contextualize this quarter's declines.

Legacy Xerox equipment sales declined 14% year-over-year in constant currency, or roughly 8%, excluding the impact of Reinvention-related items, which include the decision to stop manufacturing high-end equipment. This compares to a normalized decline of 3% in the prior quarter. The sequential slowdown reflects an expansion of the macroeconomic and government policy-related uncertainty, which resulted in continued delays in federal and SLED-related ordering activity, as government agencies and companies relying on government funding await budget clarity, as well as delayed ordering among our commercial clients and channel partners.

Total equipment installations for legacy Xerox declined 24% this quarter, reflecting in part, impact of macroeconomic uncertainty and resulting delays in customer order activity. Overall, equipment revenue declined at a slower pace than installation, due to a higher mix of color devices, which are also more profitable than mono in post-sale and the benefits of tariff-related price actions.

Lexmark's equipment sales can be more volatile quarter-to-quarter than those of Xerox. As a higher proportion of Lexmark sales come from large channel and OEM partners, the purchases of which can be lumpy. Lexmark's equipment sales declined 30% in the quarter in actual currency. About 18 percentage points of the decline can be attributed to difficult backlog compares in the prior year, the timing of OEM orders from one large customer, who pulled orders ahead of the first half of the year, and large branded equipment order delays among channel partners, driven by the timing of enterprise rollouts. The remainder of the decline is due to slower run rate activity among channel partners, reflecting macroeconomic uncertainty.

Despite the challenging third quarter results for Lexmark, underlying demand trends remain healthy. Year-to-date, equipment sales for Lexmark are down 1% in constant currency year-over-year. Normalizing for prior year backlog reductions and the aforementioned items. For the full year, Lexmark equipment sales are expected to be up around 2% in constant currency, normalizing for prior year backlog reductions. Total equipment installations for Lexmark declined 25% this quarter, roughly in line with revenue, reflecting the factors previously noted.

Print post-sale revenue of \$1.36 billion, increased 23% in actual currency and 22% in constant currency. Pro forma for the Lexmark acquisition, post-sale revenue declined 8% in actual currency, excluding the effect of Reinvention actions, core print post-sale revenue on a pro forma basis declined 5% in actual currency, slightly better than last quarter's base, as higher sequential declines of supplies at legacy Xerox was offset by legacy Lexmark's outperformance.

Outside of supplies, post-sale revenue was largely in line with expectations, reflecting the benefits of post-sale revenue streams that are largely contracted or recurring in nature. Print and Other segment adjusted gross margin of 30%, declined 330 basis points year-over-year. Pro forma for the Lexmark acquisition, gross margin declined 440 basis points year-over-year, due to higher product and tariff costs, lower managed print volumes, and a reduction in high margin finance-related fees partially offset by Reinvention savings.

Print segment margin of 3.7%, declined 340 basis points year-over-year, due to lower revenue and gross profit, partially offset by Reinvention savings and the inclusion of Lexmark in results. Pro forma for Lexmark, Print segment margin declined 520 basis points, reflecting top line softness in the quarter.

Turning to IT Solutions results. IT Solutions revenue and gross profit increased more than 150% year-over-year, reflecting the inclusion of ITsavvy in segment results. Pro forma for the ITsavvy acquisition, IT Solutions revenue grew just over 12% in actual currency. Pro forma gross billings, a reflection of business activity, increased 27% year-over-year in the third quarter, compared to 12% growth year-to-date. The sequential improvement in billings growth reflects several large public sector deployments, benefiting PC sale and endpoints, another quarter of double-digit growth in infrastructure and networking revenue. An acceleration in advanced solutions billing where we continue to see strong adoption of Microsoft Cloud service provider.

Total bookings, an indication of future billings, increased 11% in the third quarter, an acceleration from prior quarter's pace of 10%. We continue to see growth in sales activity for IT products and services to existing Xerox print clients with more than \$50 million of pipeline creation year-to-date. IT Solutions gross profit was \$44 million and gross margin of 19.5%, expanded 320 basis points year-over-year, due primarily to the inclusion of ITsavvy. Pro forma for the ITsavvy acquisition, gross margin expanded 260 basis points, reflecting benefits from platform leverage and revenue mix.

Segment profit grew \$18 million year-over-year, with profit margin reaching 8.1%, helped by the inclusion of ITsavvy. On a pro forma basis, segment margin grew 610 basis points, due to platform leverage, enabled by ITsavvy integration and synergy benefits. Operating cash flow was \$159 million, compared to \$116 million in the prior year quarter. The improvement in operating cash flow, reflects higher proceeds from the sale of finance receivables and improved working capital, partially offset by lower net income and about \$25 million of transaction expenses associated with the Lexmark acquisition.

Investing activity was a use of cash of \$725 million, a year-over-year increase of roughly the same amount, primarily reflecting the acquisition of Lexmark. Financing activity resulted in a source of cash of \$118 million, compared to a use of cash in the prior year of \$74 million. Current quarter net debt increase includes financing for the Lexmark acquisition, partially offset by the paydown of 2025 senior secured and quarterly amortization of other secured debt. Free cash flow was \$131 million, \$24 million higher year-over-year, due to an increase in operating cash flow. We ended Q3 with \$535 million of cash, cash equivalents and restricted cash.

Total debt of \$4.4 billion, increased around \$460 million from Q2 levels, due to an increase in debt associated with the financing of the Lexmark acquisition. About \$1.6 billion of the outstanding debt supports our finance assets with remaining core debt of \$2.8 billion supporting the non-financing business.

Post the Lexmark acquisition closed on July 1, total debt declined \$226 million on the paydown of the 2025 senior secured and quarterly amortization of other secured debt, partially offset by ABL borrowings. As noted in prior calls, the Lexmark acquisition added debt to our balance sheet, but resulted in lower gross debt leverage levels. On a pro forma basis, gross debt leverage is 6.1 times last 12 months EBITDA, roughly 1.5 turn reduction relative to Q2 levels. Our top capital priority remains the reduction of debt and we continue to target the gross debt leverage target of 3 times last 12 months EBITDA in the medium-term.

Finally, I will address fiscal year 2025 guidance. Looking ahead, we have adjusted our full year outlook to reflect continued macro uncertainty and slower than anticipated equipment purchasing decisions, particularly the timing of the reopening of the government. We now expect 2025 revenue to grow about 13% year-over-year in constant

currency, with an adjusted operating margin of roughly 3.5%, due to lower sales in a slower than expected rollout of price increases targeted at offsetting product cost increases and tariffs.

Free cash flow guidance was reduced from \$250 million to \$150 million, roughly \$25 million of the reduction relates to post-acquisition transaction costs classified as operating in purchase accounting with no impact on ending cash. The remaining balance is a result of lower revenue and profit, as well as one-time cost to achieve integration synergies at the high end of the previously provided range due to larger cost actions.

Moving to 2026, we will issue formal 2026 guidance during the Q4 2025 earnings call. In the meantime, I would build on commentary provided last quarter, providing additional color around certain expenses that are expected to partially offset gross cost savings. As we look to next year, we see meaningful opportunity for recovery once funding and tariff policy stabilize. Delayed projects are expected to convert into orders, while IT Solutions is expected to continue to outpace its markets.

Consistent with our view last quarter, legacy Xerox is expected to perform in line with the broader print market, which we expect to decline low to mid-single digits with legacy Lexmark revenue expected to be roughly flat to down low-single digits. IT Solutions is expected to grow above the rate of its underlying markets, which we estimate to be 7% to 8%.

Moving to adjusted operating income, as Steve and Louie mentioned, integration planning work this quarter revealed incremental upside to Lexmark synergies. Of the \$50 million of incremental synergies, we expect to realize about \$25 million of that amount in 2026, resulting in total expected in-year gross integration synergy and Reinvention savings of between \$250 million and \$300 million.

Offsetting these savings, we expect \$60 million of profit headwinds associated with a continued wind down of our finance receivable portfolio and around \$100 million of profit headwind from incremental tariff and product cost increases. We continue to target select areas for price increases and expect to fully cover the impact of incremental product costs over time. Moving below operating income, we expect interest expense to be around \$290 million. Finally, free cash flow, we continue to expect around \$400 million of cash from the reduction of our finance receivable balance.

With that, I'll now turn the call back to the operator to open up the line for questions.

QUESTION AND ANSWER SECTION

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

Greg Stein

Vice President, Investor Relations, Xerox Holdings Corp.

Q

Yeah. Good morning, guys, and thanks for taking the questions and for all the detail. A few, if I could. Just on top line impact to equipment sales, anyway to discern, I guess, of the – Mirlanda, you talked about – it sounded like adjusted 500 more basis points of gross decline relative to last quarter, the 8% versus the 3%. Anyway to discern like government impact? I guess maybe there's sort of however you want to parse this, government versus commercial, which I guess commercial is probably more macro, government sounds like it's more shutdown. And then I would imagine tariffs, tariffs layer into at least macro, I'd imagine. Does that layer into government as well? And how should we think about the incremental, the 8% versus the 3% last quarter? Parse that between kind of commercial and government? Thanks. And I have a follow-up. Thanks.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Hey, Ananda. Steve. Hey, a couple of things. First of all, the two strategic acquisitions we made are absolutely leading us in knowing that the strategy is going to sustain long-term growth and profitability. If you look at ITsavvy, right grew billings now three quarters in a row, bookings three quarters in a row. We're now penetrating our existing customer base on the Xerox side, operating profit grew. The two companies ITsavvy and IT Solutions fully integrated and completely integrated going forward, enhancing their operating profit growth.

In that sector, specifically what we're seeing is actually growth [ph] and (00:40:59) less of an impact from the macroeconomics, both in terms of government shutdown and in terms of tariffs. For a couple of reasons. One, strategically, we're aligning to where IT is making investments to drive productivity to offset some of the cost pressures that they're seeing. So, I want to bifurcate and segment this out a little bit. ITsavvy and IT Solutions, clearly growing, clearly see that growing in the future. You will see more activity in our areas in terms of SaaS and moving towards solutions, right?

On the Lex integration, the Lex acquisition, we've seen a couple of things. One, we obviously see acceleration in our synergies over the first 100 days. We're now increasing our synergies by \$50 million. What are we seeing there? We saw some slowdown with our partners in there trying to understand what was happening with the acquisition, the two companies coming together. But we also saw any clients that were impacted or could be impacted by either federal or the tariffs was pausing, right. So, we haven't seen a pace decline, we haven't seen a slowdown in activity. What we've seen is a hesitation, specifically in the ESR, growing.

And so, what we're looking at there is, now that we're going to get certainty going forward as the government opens up, as tariff opens up, we expect that business and that volume to come back. Lastly, as we think about the cross-sell opportunities, which is really important, we now can take our IT Solutions, our production solutions, take it into the Lexmark client base and take it to the Lexmark partners, which allows us to further accelerate our revenue synergies.

So, it's a tale of a couple of stories there. When we talk about the government shutdown, IT Solutions growing, we see pieces and pockets of opportunity even as part of the Lex acquisition. We haven't talked about Asia

expansion, which is on the table for us. So, the federal government is slowing down, some of our buying from our clients and from our partners, we expect that to come back as we go forward. Any other comment, Mirlanda?

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

Yeah, no. Thank you, Steve. Ananda, yes. And the weakness, Steve really explained it well. On the ESR, this is where we saw top line client just slowing demand. And as it relates to post-sale, the trends are very similar to Q2.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Yes. That's a really good description, guys. That's super helpful. And then on the savings, the increased savings from integration, I guess, it's really an overall savings question. Is there any way yet to discern what portion could ultimately go to the bottom line?

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

So, Ananda, how we're thinking about the increased saving, the \$50 million that we upped our synergy targets for Lexmark acquisition from \$250 million to \$300 million, we expect about half of that to flow through in 2026. And the rest in 2027 – 2028. So, I would say half of it.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

And is that to op income or is that recognized gross. And I guess what I'm really...

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

It's a mix. Yeah, it's a mix gross – gross profit – gross margin and operating margin will benefit.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah, Ananda. The other thing I'll highlight is, look, we're 100 days into this, right? We've...

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Yeah.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

...accelerated and found another \$50 million. We've got multiple workstreams that we're looking at, and we will see continued expansion of our synergy savings as we start to roll out and get deeper into those activities. So, we're not done, we talked about the \$300-million-plus. There are more workstreams and activities and we will see more synergy savings from those activities.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

No doubt. Okay, guys. Thank you so much. I appreciate it.

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

Maya Neuman

Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is Maya on for Erik. Thank you for having me. Last quarter you saw as the tariff headwind at about \$30 million to \$35 million for 2025. Maybe if we put the impact from delayed purchases at the top line level aside, you noted tariffs as one of the underlying reasons for the reduction in adjusted operating margin guidance for the full year. How would you size this headwind now? What has really changed, I guess, in the last 90 days? And you also mentioned a little bit – took a little bit longer to flow through price increases. Are there more price increases to come in response to tariffs or have those kind of fully flowed through now? Thank you.

Mirlanda Gecaj

Chief Financial Officer, Xerox Holdings Corp.

A

Yeah. Thanks, Maya. With respect to tariffs, last quarter we provided a range, as you mentioned \$30 million to \$35 million. Right now, we see that being on the high-end of the range. We expect about \$35 million net impacts from tariffs in 2025 and that is included in our guidance. We are continuing with price increases, but have been very measured, because we are talking to our customers, we're looking at the demand and impact it has and given the softness, because of all the reasons that we discussed in our prepared remarks, we are taking a step back and looking at case by case, as we apply these price increases. We still expect to continue to offset the impact of tariffs in future periods with price increases and changes to our supply chain. But for now, again, 2025 has about \$35 million of tariff impact in our guidance.

Maya Neuman

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from Asiya Merchant with Citi. You may proceed.

Asiya Merchant

Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Good morning. Thank you for taking my question and for all the incremental details. Two, if I may, one just, if you could unpack, I think you talked about the various levels of government softness that you were seeing on the equipment side of things, on the print side of things, but at the same point, you talked about ITsavvy doing better. So, if you could just talk about the weakness that you saw in the government across the different levels between those two segments, federal, state, local, that would be great.

And then you talked about free cash flow improvements into next year, I get 400 basis – about \$400 million, sorry, from finance receivables flowing through. Just if you can walk us through, how we should think about sort of some of the other items that could impact free cash flow into next year, clearly better income. So, how should we kind of think about free cash flow into next year versus the \$150 million that you guys are guiding to for 2025? Thank you.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah. Thank you. This is Steve. I'll take the first part of it. So, when you think about the federal shutdown, it impacts the ecosystem. You think about their suppliers, you think about the contractors, you think about state and local who require funding from the federal government. And so, we see a grand overall impact on spending. However, when you think about priorities in IT spend, there are pockets in areas that they will invest. So, for example, if you're going to invest in AI infrastructure, so that you can accelerate productivity and take advantage of using of AI, you could take advantage of looking at how do you move more towards a captive and more into the cloud, how do you think about network as a service, cybersecurity, et cetera.

So, we are seeing pockets where they continue to invest to drive productivity based on prioritizing their IT spend. And that's where ITsavvy is taking advantage of the spending that's happening out there, that is in fact less, less impacted by the federal shutdown because IT organizations are prioritizing certain areas that we're actually playing in and we're taking advantage of that.

The other aspect of it is what we're seeing is so as you start to think about the trickle down, there's a little bit of uncertainty in terms of profitability for the company. So, they're pulling back capital in general. And when you think about the print infrastructure, sweating the assets and not putting in new equipment is where we're seeing the biggest input. So, we're seeing page volumes, okay. We're seeing supplies, okay. But we're not seeing the turn on equipment that we anticipate in terms of buying new equipment, which reduces our ESR. We anticipate that coming back once we see certainty when the federal government opens, and once we see certainty in budgets and when that'll start to flow. Do you want to take a look at cash flow?

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah. Thanks, Steve. So, we'll provide official guidance when we report our earnings in – Q4 earnings, but some guidelines to consider. So, yes, we expect \$400 million of proceeds from the continued reduction in finance receivables. We expect about \$50 million in one-time cost associated with synergy savings. And then when we think about working capital, we expect to have a more normalized working capital, higher operating income, which is net of incremental expenses, which will contribute to an improved conversion of free cash flow from adjusted operating income in 2026.

Asiya Merchant

Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you. And just can I – if you don't mind, if I can ask one more on just the competitive dynamics? I think you talked about the ESR seeing impact from all the shutdowns and the lack of clarity, et cetera. Is this – when you talk about some of this coming back, what's the clarity, should we expect like competitively your market share, as you kind of see it has remained stable, and so this is more of a industry-wide shut down? Or is there anything else from a competitive standpoint that we should consider?

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

No, we don't. We don't see loss in share. We're holding share. And so, from a competitiveness, we don't see anything unique that we're not competitive in the space. We're seeing a basic pullback across the board.

Asiya Merchant

Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you.

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.

Thank you. While the near-term environment remains complex and our strategic priorities are clear and unchanged, execute the Lexmark integration to capture both revenue and cost synergies faster than initially planned. Drive profitable growth in IT Solutions through advanced infrastructure, networking and advanced solutions. Maintain financial discipline with debt reduction remaining our top capital priority and a clear path to reach 3 times gross leverage ratio over the medium-term. We recognize there are still more to do, but we're confident that the actions we are taking are positioning Xerox for long-term sustainable profitability. I want to thank our employees, clients, and partners for their continued dedication and support. I wish everyone a great day.

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

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