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Xerox Holdings Corp. (XRX)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the Xerox Holdings Corporation's First Quarter 2024 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program is being recorded.

And now, I'd like to introduce your host for today's program, Mr. David Beckel, Vice President, Investor Relations. Please go ahead, sir.

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's first quarter 2024 earnings release conference call hosted by Steve Bandrowczak, Chief Executive Officer. He's joined by John Bruno, President and Chief Operating Officer; and Xavier Heiss, Executive Vice President and 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.

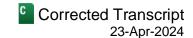
At this time, I'd like to turn the meeting over to Mr. Bandrowczak.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.



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Good morning and thank you for joining our Q1 2024 earnings call. This past quarter, our organization implemented one of its most intense periods of structural change in recent history. As part of Reinvention, we redesigned and restructured our organization from top to bottom, letting a lot of good people go in the process. This work was hard, but necessary to position Xerox for long-term success as we navigate the secular challenges associated with print and reposition our business for long-term, sustainable growth.

Summarizing results for the quarter, revenue of \$1.5 billion decreased 12.4% in actual currency and 13.2% in constant currency. Excluding the impact of backlog reductions in the prior-year quarter and the intentional deemphasis of certain non-strategic businesses, revenue declined mid-single digits. Adjusted EPS was \$0.06, \$0.43 lower year-over-year. Free cash flow was a use of \$89 million, a decrease of \$159 million compared to Q1 of last year. And adjusted operating margin of 2.2% was lower year-over-year by 470 basis points.

Q1 results were below our expectations and are not representative of the operating improvements already observed following the organizational redesign. We experienced a short period of disruption associated with the reorganization, particularly as it relates to sales of equipment, but momentum in equipment orders and continued strength in services signings activity, along with enhanced operating visibility and speed of decisioning suggests the structural changes implemented this quarter can deliver the improved in-year revenue trajectory, operating margins, and free cash flow required to achieve our full-year guidance.

This past quarter, the employees of Xerox demonstrated the resilience and dedication required to enable a successful, multi-year strategic repositioning of the company. I have more confidence than ever that we have the right team and the right strategy in place to execute Xerox's Reinvention and deliver our three-year adjusted operating income improvement target. We will continue to build on early momentum following the reorganization, guided by a clear focus on the strategic priorities we established to start the year.

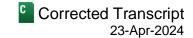
Starting with a stronger core, a strong, stable print business provides the financial foundation for investments in new digital and IT services capabilities and the strategic platform from which new services can be deployed. This quarter, we took important steps to strengthen our core business by deploying a business unit, rather than geographic-led operating model. This new model more closely aligns operations with the economic buyer of our products and services, which is critical as we navigate the risks and opportunities presented by an evolving hybrid workplace.

As part of the realignment, we integrated go-to-market, marketing, service delivery, product development and engineering teams to ensure client feedback is quickly and accurately incorporated into key product and marketing decisions. We elevated a broader set of go-to-market leaders, representing key customer types, to improve accountability and visibility into the effectiveness of our sales strategies. And we tasked one of our most senior sales leaders to establish a global partner ecosystem, improving indirect channel, sales reach, and ensuring broader access to Xerox products globally.

These organizational changes improve speed of product and marketing decisions and enhance opportunities to expand client wallet by enabling greater coordination in the sales of digital and IT services to print clients. We expect the new operating model will provide incremental tailwinds to the momentum currently observed in our services business. Print and digital services signings grew double-digits again this quarter, and the revenue renewal rate among large clients remained above 100% on a trailing 12-month basis, driven by the cross-sell of digital services into existing print clients and vice versa.

Our portfolio of digital services provides stability to our core print business and drives opportunities for growth as clients seek both digital and physical solutions to address their most important document workflow needs. I'll

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share an example of the digital services signings we completed this quarter with a large print client in the medical devices space. At this client, we leveraged our print relationship to design a comprehensive Intelligent Document Processing solution that streamlines and automates critical document workflow processes, resulting in an expansion in annual contract value of 35%.

The solution utilizes AI and RPA to digitize and classify and extract data for automatic integration with important client workflows, including the classification of device-related records, manuals, clinical records and office documents. The solution also improves data and process accuracy, while lowering the client's labor costs. This is one of the many case studies at Xerox that illustrate our ability to provide digital and print solutions that grow our share of wallet through improved client outcomes.

Moving to structural cost improvements, this quarter we took significant steps to improve our cost structure, most notably through the implementation of reorganization that is expected to result in a 15% reduction to our employee base. Difficult decisions were made across the organization, but a streamlined employee base and simplified operating model positions us better to respond to market opportunities and provide incremental financial capacity to reinvest in our growth businesses. Financial benefit of these head count reductions will build throughout the year, with carryover benefits expected in 2025.

Operating efficiency remains a focus throughout our Reinvention. The newly formed Global Business Services organization will leverage advanced technologies like machine learning and AI to drive continuous improvement in productivity across the organization. Examples already in-flight include the use of AI to optimize services pricing, reduce service technician resolution time, and improve the timing and quality of customer service responses. The financial benefit of these and other productivity initiatives are expected to grow as our business is further simplified though geographic and offering optimization.

Accordingly, we took initial actions this quarter to simplify our product offering and global routes to market. We are exploring strategic options for our production print manufacturing operations and sold or signed agreements to sell our direct operations in four Latin American countries. These and future simplification actions will be key to unlocking operational savings throughout our Reinvention journey. John will discuss these actions in more detail.

Finally, balanced capital allocation, capital allocation priorities for the year remain the payment of our dividend, reduction of debt, and investments in projects and acquisitions with high rates of return on invested capital. This quarter we executed a series of refinancing transactions that extend the maturity profile of our debt. Xavier will discuss these transactions in more detail. When combined with free cash flow expected from a stronger, more operationally efficient print business, the refinancing enhances near-term flexibility to invest in growing our digital and IT services capabilities.

I will now hand the call over to John to provide an update on Reinvention.

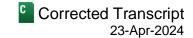
John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

Thank you, Steve. As Steve mentioned, we implemented a comprehensive and complex organizational redesign this quarter, focused on building a stronger, more stable business aligned to the evolving needs of our clients. I'll provide context behind some of these more impactful changes, but thematically they are all designed to provide our sales and delivery organizations more time with clients, reduce organizational complexity, streamline decision rights, and create investment capacity for future product development.



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The first change was the implementation of a business unit-led operating model, replacing our previous geographic focus. This solution-led model incorporates the voice of our clients and partners, from initial engagement through service fulfillment, segmented by the economic buyer profile. To enable this alignment, we integrated all business groups responsible for the design, marketing, sales, development and delivery of our products and services into one organization. We simplified organizational spans, layers, administrative reporting, and supporting infrastructure formally needed to run the business.

Bold changes of this magnitude, designed to deliver global operating model simplification come with a high degree of disruption, and we were no exception. We experienced disruption across our organization this quarter as our team acclimated to the changes, which primarily impacted equipment sales. I make no excuses for that underperformance and was disappointed with our results, as we did not meet our internal expectations. That said, I am also proud of our team as they adapted to our new operating model better than I expected and are driving the intended outcomes to recover from this self-initiated, but necessary disruption.

I am pleased to report we are seeing early indications and positive results from our go-to-market teams and supporting functions as we improve client and partner engagement and drive sales productivity. After a slow start in January and early February, equipment orders were up double-digits year-over-year in late February and March, growing at an expanded rate as we exited the quarter.

The second major change this quarter was the establishment of Global Business Services or GBS. GBS will drive continuous, enterprise-wide efficiencies and productivity gains by centrally coordinating internal processes through shared capabilities and platforms. GBS was built to complement and support our business unit led operating model and its success will be measured through growth enablement and enterprise operating efficiency.

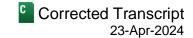
Among the more significant near-term savings opportunities identified by GBS is a reduction of the technological and administrative burden associated with the company with hundreds of legal entities, 20-plus ERP systems and more than a thousand business applications. The savings opportunity associated with a modern tech stack and a more efficient financial reporting structure are substantial and will be key contributors to our net savings target over the next three years.

GBS will also be a key enabler of savings associated with our geographic and offering simplification. We began the process this quarter to systematically optimize the profitability and reach of our geographic distribution and narrow product offerings to those where sufficient rates of return on invested capital can be generated.

Starting with geographic optimization, in Q1 we sold or signed agreements to sell our direct operations in Argentina, Chile, Ecuador and Peru, shifting to a partner-led distribution model in each country. We are in negotiation to enact similar changes to our distribution model in parts of Europe. Collectively, these arrangements will allow us greater focus on improving the print and digital services capabilities we offer channel partners who are best positioned to serve our clients in these regions. As a reminder, geographic simplification will cause a slight reduction in revenue over time, as businesses are transitioned to a partner-led model. However, these actions are expected to generate absolute improvements in operating profit as the removal of overhead cost in place to support these geographies more than outweighs the potential reductions in revenue and associated gross profit.

On offering simplification, this quarter we decided to explore strategic options for our production print equipment manufacturing operations, including exiting manufacturing of certain product families. By more closely aligning the mix of production products and services with the need of our production clients, we will have greater capacity to offer value-added services such as automation, intelligence, assistance, and personalization. Our dedication to

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the production print market remains unchanged, and we expect the rationalization of our offering to improve our differentiation and distinctiveness in this important market. Accordingly, we recently signed an agreement with a third-party provider of high-speed continuous feed inkjet machines to offer their family of inkjet presses for the printing and graphic arts industries to our clients.

In summary, Q1 was pivotal for our Reinvention, and the actions taken this quarter solidified the path to achieve our three-year target of \$300 million of adjusted operating income improvement above 2023 levels. Much of the expected improvement in 2024 is associated with the cost reduction actions already taken and improvement in sales productivity. Due to the timing of certain actions taken this year, a portion of the run rate benefits associated with 2024 actions will be realized in 2025, giving us visibility to another year of progress toward our three-year target.

I'll now hand the call over to Xavier.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thank you, John, and good morning everyone. As Steve mentioned, revenue, profits and free cash flow declined year-over-year, due mainly to a reduction of equipment backlog in the prior-year quarter and the intentional reduction of non-strategic revenue. Excluding these factors, revenue would have declined mid-single digit. Revenue and adjusted operating profit were below expectations, due mainly to the effect of organizational change on our sales operation and constraint in A4 device, which affected equipment revenue, as well as a more measured implementation of workforce reduction action within the quarter than originally anticipated.

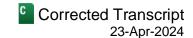
Turning to profitability. As part of our offering simplification efforts, we incurred \$36 million of inventory charge associated with the exit of certain production print manufacturing operations. All profitability commentary to follow excludes this impact. Adjusted gross margin declined 240 basis point year-over-year due to lower revenue, including the termination of Fuji royalty income, and higher product and freight costs, partially offset by the benefit of structural cost reduction.

Adjusted operating margin of 2.2% declined 470 basis point year-over-year, due to lower gross profit and higher bad debt expense, reflecting in part a reserve release in the prior-year period, partially offset by the benefit of structural cost reduction actions. Non-selling G&A, excluding bad debt expense, declined close to 10% in Q1, reflecting the partial quarter of head count reductions and the benefit of cost action implemented in the prior year.

Adjusted other expenses net were \$3 million higher year-over-year, due to an increase in non-finance interest expense, partially offset by the reversal of previously accrued contingent consideration and favorable business tax settlements. Adjusted tax rate is a 22.2% tax benefit, as compared to 15.5% tax expense in the prior-year period. The decrease in tax rates reflect additional tax benefit in the current quarter from the redetermination of certain unrecognized tax position and mix of earnings.

Adjusted EPS of \$0.06 in the first quarter was \$0.43 lower than the prior year, driven by lower operating income and higher interest expense, partially offset by the benefit of a lower share count and tax rate. GAAP loss per share of \$0.94 was \$1.37 lower than the prior year, reflecting lower revenue and gross profit, higher interest expense and non-service retirement costs, as well as roughly \$100 million after tax or \$0.80 per share of asset impairment and restructuring-related charge associated with the company's Reinvention, including activity relating to the exit of manufacturing for certain production equipment and the execution of geographic simplification initiatives in Latin America.

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Let me now review revenue and cash flow in more detail. Starting with revenue, equipment sales of \$290 million in Q1 declined around 26% year-over-year in actual and constant currency. The prior year effect of backlog reduction and geographic simplification contributed around 16 percentage points of the year-over-year decline. Equipment sales were also affected by the organizational changes implemented during this quarter, constraint in A4 devices and accelerated buying of competitive Japanese product in advance of communicated price increases for our competitors.

As Steve noted, despite a slower-than-anticipated start to the year, we are seeing the intended benefit of organizational change on equipment order, with year-over-year growth in order accelerating throughout the quarter. Total equipment revenue outpaced installation activity due to favorable product mix. Installation declined across all product due mainly to prior-year backlog reductions and the effect of sales force organizational changes, which are now complete.

Post-sales revenue of \$1.2 billion declined 8.5% in actual currency year-over-year and 9.3% in constant currency. Excluding the effect of non-strategic, lower-margin paper and IT endpoint device placement, which we plan to continue to reduce over time as communicated in January, as well as the effect of geographic simplification, the termination of the Fuji royalty and the absence of PARC revenue, post sales revenue declined modestly.

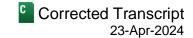
Consistent with last quarter, I will provide additional commentary to help clarify underlying trend in our core businesses, which exclude the effect of certain non-recurring item. For Q1, the prior-year reduction in equipment backlog contributed around 400 basis point to the year-over-year decline in total revenue. Lower sales of non-strategic paper and IT endpoint devices contributed around 200 basis point to the decline. The effect of no Fuji royalty revenue and strategic actions taken to simplify our business, including geographic simplification, contributed another 200 basis point of the decline. When these combined effect are removed, revenue from our core business declined mid-single digit this quarter, mainly reflecting the previously noted effect on equipment revenue, and to a lesser extent, decline in printed page volumes. For the remainder of the year, we expect revenue, excluding the effect of backlog reduction and decline in non-strategic revenue, to be slightly higher on a year-over-year basis.

Let's now review cash flow. Free cash flow was a use of \$89 million in Q1, lower by \$159 million year-over-year. Operating cash flow was a use of \$79 million in Q1, a decline of \$157 million versus the prior-year quarter. The decline was mainly driven by lower operating profit, a higher use of working capital, higher payment for incentive compensation accrued in the prior year, restructuring payment associated with Reinvention and higher pension contribution, partially offset by higher net cash associated with a reduction in finance receivable.

Finance asset were a source of cash this quarter of \$188 million, compared to a source of cash of \$120 million in the prior year, reflecting the benefit of our Forward Flow program with HPS and lower origination. Working capital was a use of cash of \$135 million, resulting in a \$69 million year-over-year decrease in cash, driven mainly by an increase in inventory related to a change in contractual term with a large OEM vendor. We expect inventory level to normalize throughout the year and working capital seasonality to improve during the next three quarters, in line with improvement in our operating profit trajectory. Investing activities were a use of cash of \$17 million, consistent with the prior-year quarter.

Financing activity were a source of cash of \$261 million, reflecting the issuance of \$900 million of senior unsecured and convertible notes, partially offset by around \$450 million of cash used to repay outstanding note, purchase of capped call option and pay for deferred issuance cost, along with \$132 million of secured debt payment and dividend of \$37 million.

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Turning to segment, Xerox Financial Services or XFS, origination volume declined 35% year-over-year, reflecting XFS' change in strategy to return its focus toward captive-only financing solutions. XFS' finance receivable balance declined 10% sequentially in actual currency, due to the run-off of existing finance receivable and HPS' funding of XFS' origination. As previously highlighted, we expect our finance receivable balance to continue to decline and normalize closer to \$1 billion by 2027. In Q1, XFS revenue was down 11% year-over-year, due to lower finance income and other fees associated with a decline in XFS' finance receivable balance, partially offset by higher commissions from the sales of finance receivable asset. Segment profit for XFS was \$18 million lower year-over-year, mainly due to higher bad debt expense, reflecting a reserve release in the prior-year period, which was partially offset by modestly higher gross profit and lower intercompany commissions.

Print & Other revenue fell 13% year-over-year in Q1, due to lower equipment and post-sales revenue, for the reason previously mentioned. Print & Other segment profit declined \$67 million versus the prior-year quarter, driven by lower revenue, partially offset by structural cost efficiencies.

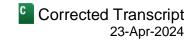
Turning to capital structure, we ended Q1 with \$772 million of cash, cash equivalent and restricted cash. Around \$2.2 billion of the remaining \$3.6 billion of our outstanding debt support our finance asset, with the remaining debt of around \$1.4 billion attributable to the non-leasing business. Total debt consist of senior unsecured bonds, finance receivables, secured borrowing, term loan debt and our new convertible note. During the quarter, we took advantage of favorable market condition to refinance our near-term debt maturities, which resulted in an extension of our maturity profile at a slightly higher interest rate. We raised \$900 million of unsecured debt, comprised of \$500 million in senior unsecured and \$400 million in senior convertible note, at an effective interest rate of 6.6%.

Proceed were used to repay \$83 million of outstanding 2024 notes and \$362 million of outstanding 2025 note, and for issuance cost, including the purchase of a capped call option to raise the effective strike price on the convertible note from \$20.84 to \$28.34. Unused proceed from the debt issuances will be used to repay the outstanding 2024 note in May and selectively repay debt balance with higher rate of interest throughout the year. As a result of the refinancing transaction, we have no single maturity exceeding \$400 million until 2028, greatly enhancing financial flexibility, as we execute our Reinvention and invest in our digital and IT services businesses. As a result of the capped call purchase and our election of net share settlement treatment for the convertible note, economic and non-GAAP EPS dilution does not begin until our share price exceeds \$28.34.

Finally, I will address guidance. For revenue, we continue to expect a decline of 3% to 5% in constant currency in 2024. As a reminder, included in this guidance are around 400 basis point of effect from non-recurring headwind associated with backlog reduction in the prior year, the strategic exit or de-emphasis of certain businesses, lower paper sales and other known strategic actions. Excluding the cumulative effect of these items, core business revenue is expected to be roughly flat year-over-year, reflecting stable print demand, growth in digital and IT services and neutral macroeconomic condition.

The effect of geographic and offering simplification action taken to-date are not expected to be material to 2024 financial result. As future strategic action involving product or geographic simplification are taken and become more material in the aggregate, we will update guidance accordingly. In terms of quarterly cadence, we expect sequential improvement in year-over-year revenue trajectory throughout the year. We continue to expect 2024 adjusted operating income margins to be at least 7.5%. A significant portion of the expected year-over-year improvement in adjusted operating income is associated with cost reduction already taken, including the reduction in workforce announced in January.

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Our pipeline of near-term operating efficiency initiative provide visibility to cost savings sufficient to achieve the full-year adjusted operating income target of at least 7.5%. Similar to revenue, we expect quarterly sequential improvement in adjusted operating income margin throughout the year. Free cash flow is expected to be at least \$600 million in 2024, aided by the reduction in our finance receivable balance. Free cash flow guidance is inclusive of around \$130 million of expected restructuring payment and \$50 million of incremental pension payment.

In summary, Q1 result were affected by difficult prior-year compare and the effect of strategic action taken to drive long-term improvement in our operation. We are encouraged by the momentum we see following the reorganization. An improved debt maturity profile and our capacity to generate sequential free cash flow, position us well to fund the repositioning of our business toward opportunities with higher rate of underlying growth.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. One moment, ladies and gentleman, for our first question. And our first question comes from the line of Ananda Baruah from Loop Capital. Your question, please.

Ananda Baruah Analyst, Loop Capital Markets LLC	Q
Yeah. Thanks, guys. Good morning.	
Steven John Bandrowczak Chief Executive Officer & Director, Xerox Holdings Corp.	A
Good morning, Ananda.	
Ananda Baruah Analyst, Loop Capital Markets LLC	Q

Good morning. Thanks for the question, sounds like there's a lot going on here. Yes, I have a couple really – might really be more clarification if I could. But so, selling of some of the South American direct business entities and I think you guys did mention that you're going to be doing something similar in Europe. All of this sounds like you're doing it in the name of simplification. But can you just touch a little bit more on the breadth of which those initiatives could end up taking? And it sounds like this is – I want to just ask a couple of questions or a question about – a clarification about the print production business, strategic actions you guys are doing there as well. So is the taking of the direct, and you were really sort of going to the indirect in South America [indiscernible] (00:33:20) is that really the non-production business [ph] so that's (00:33:23) sort of the office business?

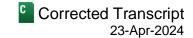
Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Yeah, Ananda, if we take a step back, part of the Reinvention we talked about are geography simplification. And what we said was we'd look at country by country. Each country has a different set of dynamics. Each country has a different set of partnering capabilities, and each country has a different set of client set. So, we look at each country, look at each opportunity, and then determine what is the right economics between us being direct versus

indirect versus going through a single-partner or multiple partners. And that's what you saw in LATAM, right,

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where we were not going to provide the best client experience, the best capability in the coverage. And we felt that a partner in that particular country would better serve the region and better serve our clients.

It does two things for us. One, it gives us more reach and more expansion with a capable client or partner in that region. But it also allows us to, as we talked about in geo simplification, focus on those growth areas that we can accelerate where we put all of our resources into, like IT, digital services, driving more of the things that our clients need in core countries. So that's why we've made this strategic change, and we'll continue to accelerate that through the balance of LATAM and looking at Europe as well.

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

And, Ananda, this is John. I'll just add, it's the right question with regard to the way you're thinking about mix, right, because we look at offer simplification more from a production portfolio and geo simplification more around cost of sales, opportunities today and in the future, and what is the partner in those particular countries, and can they take both our core offering as well as our future offerings, and can we get greater reach at a lower cost of sales. So we look at our transfer cost and prices, the enablement capabilities and how do you best serve clients, because it all starts with who's the economic buyer, what are they buying from us today, to your point, from office equipment or others? What do we expect that they will be buying with the mix shift of not only those products, but other services that we sell? And who's best positioned to bring them to market at the best and most optimized cost to sell. That's how we do it.

And to your point around scale and reach and development, you would expect it to be right along the lines of what you would think about the major geographies in which we are today with the highest penetration. And then as you paraded those down, and then just a simple return on invested capital and how we deploy them, we just have a Mendoza Line, if you will, as to where it is that we want to ensure that we're above that line and we can continue to invest in those partners and not – or I should say, and optimize our overall cost of sales in the region.

Ananda Baruah

Analyst, Loop Capital Markets LLC

I think I'm getting it. Okay. That's super helpful context, guys. And then just real quick on the production, on the strategic actions around production print, like, can you just talk to breadth and depth and potential optionality? I mean, could you end up selling the entirety of the core production business? Is that included in that option set? I guess the answer is always yes.

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

Look, from a...

Ananda Baruah

Analyst, Loop Capital Markets LLC

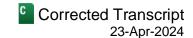
But just a context there?

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

Of course, of course. Listen, we are committed to the production business. I do not want to mislead or anything through these comments that there's somehow our concern – you have to look at the product sets themselves. These are products that were invested, invented and have been deployed for many, many years in this space.

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The evolution of the technology and so forth, and the changes, we're just looking at overall our manufacturing of certain of those platforms, not our commitment to those platforms both today and going into the future...

Ananda Baruah

Analyst, Loop Capital Markets LLC

Yes.

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

...right? So we're still committed to those platforms for long periods of time from a service and supplies perspective. It's just we're not going to continue to manufacture them at a pace in which we believe is not conducive to the market demand, just based on volumes, based on needs and based on the changes. We'll also continue to invest around the production platforms in areas that our customers are pushing. And you can see that in a very robust portfolio of service offerings, whether it's productivity assessments, our Free Flow Core, you could see some of our graphics, XMPie, our storefronts. There's a lot of demand around the production hardware. We're specifically talking about what we're ceasing of doing in the manufacturing of those certain products.

To your question about potential M&A transactions, as with anything, we're always looking to optimize our portfolio and looking at strategic options and what's the best and right thing to do for the business. But it's really about growing within that segment. It's not about shrinking within that segment. That's not the design. It's about optimization. But we can't be on a path about what we're doing around profit optimization and operation simplification if we're not willing to retire legacy parts of the manufacturing part of the business, which has a very higher cost to serve as the volumes come down, without investing in the things that are the future ramp of growth moving forward.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Ananda, the other thing I would add is, think about, we talked about the collision between the physical and the digital world production. You're thinking about it just as print production. The reality is the world is colliding. And so, what you see in both the physical and the digital, our production environment, our production offering includes more and more digital options. You take a look at what we do in Go Inspire, you take a look at what we do in XMPie, what we do with our large partners in terms of driving demand and web services into storefronts to drive print and vice versa, and we have a tremendous, tremendous growth opportunity in the physical and digital world in production. So don't just think about it as just output of being print.

Ananda Baruah

Analyst, Loop Capital Markets LLC

That's helpful. That's helpful. Thanks, guys. I'll get back in the queue. Thanks.

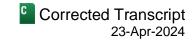
Operator: Thank you. One moment for our next question. And our next question comes from the line of Samik Chatterjee from JPMorgan. Your question, please.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Yeah, hi. Thanks for taking my questions. Maybe if you can start off with just the disruption that you saw in the quarter. You mentioned the disruption was primarily around the sales force restructuring that you did. How much

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of that was an impact on sort of shipping equipment out versus sort of what you saw in terms of your order pipeline? And maybe just help us also think about what steps you're taking to ensure you don't have any more disruptions of that same kind? Because when you talk about like the opportunity with GBS identifying a lot of savings on the technology side as well as the back-end, and then actions you're going to take in Europe, like, all of that, looks, sounds, much more in terms of you could have similar disruptions in the future. So, how are you ensuring that you don't have similar disruptions? And then I have a quick follow-up. Thank you.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Α

Yeah, thanks. So, let me start with, first of all, we made significant organizational model changes to drive decision-making to drive velocity, and really improve our business over the long-term. That org change had a tremendous impact on our sales go-to-market. As you look about the early part of the quarter, we had these tremendous changes. Several thousand new people were realigned to new organizations, aligned to new clients, aligned to new go-to-market. And as I've spent time on the road, a couple of things have happened. One, spent time with partners, spend time with clients, go-to-market leaders and sales leaders. As we got towards the middle of the quarter, you can see the stability in what we see in terms of order velocity. You can see stability in terms of activities, funnel building, the amount of calls that we were making.

And so, the early part of the quarter clearly disrupted the organization from a sales motion standpoint. And then we started to get stability towards the middle of the quarter and then saw velocity in order, specifically year-over-year order volumes.

On the shipping side and on the services side, we saw SLAs that were normal. We didn't see any disruption in the services side or disruption in installation or disruption in shipping. It really was on the sales activity, specifically early part of the quarter. John, want to give a little color on what you see?

John G. Bruno

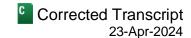
President & Chief Operating Officer, Xerox Holdings Corp.



Sure. And the only additional color I'd provide is that with any sales organization, you monitor things like your pipeline, it means your pipeline is your leading indicator into what is orders that convert to revenue. And while our pipeline has a bit of aging, which you would expect because of the sluggishness in the first two months of the quarter, the sufficiency is holding, the quality of the pipeline is holding. And so we're starting to see that conversion to revenue, again, more slowly than we anticipated in the first two months of the quarter. But March is improvement over February, and April to-date is improvement over March is giving us encouragement because of what Steve pointed out. The engagement with clients is there. The partner engagement is there. The pipeline is sufficient. The order in the backlog is there. This is about execution. To Steve's point, when you rewire an organization with 6,000 people moving throughout the organization, it's realignments, and you're consolidating territories by 50%, things like that, to streamline decision rates, we expected a level of disruption.

But let me hammer home what your question is, we have no other further actions for the remaining part of this year as substantial is what we did in Q1. Anything that we do from here is consistent with the geographic exits or the simplifications, which is much more closer to normal course and speed of change for Xerox, not the type of change that we did in Q1. And that's why we have the confidence that we do around what caused the disruption. It was anticipated. It's unacceptable, we understand that. We understand what we need to do to course correct it. We look for as much of the signs and the signals in our business, both current and moving forward to ensure that we have the confidence necessary that we can operationalize the change and continue to move through it.

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Samik Chatteriee

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Analyst, JPMorgan Securities LLC

Got it. Got it. Thank you. And for my follow-up, and maybe this is more for Xavier, the Project Reinvention, the target to get to more than \$100 million of savings in fiscal 2024 itself, can you give an update on sort of when we just look at 1Q, how much of that sort of benefit did you see in 1Q, and sort of how to think about the linearity of the progress? I know you mentioned operating margins improved sequentially through the year, but even in terms of timing, is it more back-end loaded versus front-end loaded, just any thoughts around that, but also what so you're tracking to in 1Q itself? Thank you.

Xavier Heiss
Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yes, Samik. So, Reinvention is on track. So, we have implemented the action we plan to do here. The major announcement was at the beginning of the year, we – on the 3rd of January we announced publicly the 15% head count reduction. We started during quarter one to enact the exits. There are specifically in certain geography where you have less limitation to implement this.

So, program is on track. And as Steve and [indiscernible] (00:44:15), they also mentioned the benefit we will get not only from the cost reduction, but also with the implementation of the GBS. So, this is a step-by-step approach, three-year journey. We are enacting and delivering the action on the activities as we were planning to do that there, so with always, you know, in some cases, you know, like timing differences on some small actions there, but we are not changing our guidance from an adjusting operating margin for this year on the \$100 million year-over-year net operating income improvement.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Thank you. Thanks for taking the questions.

Operator: Thank you. One moment for our next question. And our next question comes from the line of Erik Woodring from Morgan Stanley. Your question, please.

Woodring from Morgan Stanley. Your question, please.

Great. Thank you very much, guys, and good morning. John, I was wondering if you could maybe just clarify the comment you just made to Samik about no further actions being taken for the remainder of the year. I just want to make sure I understand that the actions, when it comes to geographic simplification, offering simplification, model simplification, were you saying that those were – for what you plan on doing in 2024, those were finalized or completed by the end of 1Q and there's nothing left...

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

No.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC
...to do for the remainder.

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John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

No. No. No.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Could you mind just clarifying that? I'm sorry.

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp. Yeah, sure, sure. Just to be clear, what I said was, to the extent and the size of the action as it related to head

count, the destruction and the rewiring of our operating model, that was done in Q1. The remaining parts of things that we might do with country exits and those types of things, they're more surgical in their action and they're targeted. What we did in Q1 was a top to bottom realignment of our organization and operating model alignment. We did a reduction in workforce, a realignment of folks, that's very, very disruptive, as you can imagine. And what I was saying is, is that the size, the majority of what we did was in Q1. The stuff that we will do for the remainder of the year will continue to roll out just as you would expect in places in which you have in certain geographies, workers councils, et cetera. Those things are timed, as our exits in particular countries or if we do further things along our product lines. But that's more manageable within how we run our business consistently as opposed to an event-driven thing, which we did in Q1.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Okay. No, very clear. And maybe just as a quick follow-up to that one. Again, your kind of qualitative comments are very clear. Is there any way that you could help us understand then, if we're in a nine-inning game, how far along we are then in the actions that you need to take? It seems like we must be pretty far given all of what you did, the heavy-lifting in 1Q, but how would you kind of clarify that with us?

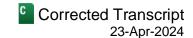
Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Erik, it's Steve. So, as we talked about coming into the quarter, we spent a lot of time from a Reinvention standpoint, looking at the strategy, looking at the three-year plan and we gave guidance on what we were going to do over the next three years. I would say the actions that have been taken so far [ph] not result in a P&L (00:47:26), but still need to roll out, we probably implemented roughly half of the big strategic things that we need to do.

So, we still got a ways to go in terms of things we need to implement. But as John said, more structural in terms of they are isolated and they are events that are isolated to individual units or individual countries as opposed to the significant change we made in Q1. And if you think about the amount of change with an org model redesign, the amount of people that got - we talk about rewired, but really, you know, when I come in, who do I report to? What's my job? Did my quota change? Did my sales territory change? All those things were tremendous disruption in how to get settled down in the first couple of weeks of the quarter, and all of that's behind us. So about 50% into what we're trying to implement, and obviously over the next 18 to 24 months, we will implement the balance of the Reinvention.

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Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Got it. Okay. That is very clear. Thank you. Thank you, both, for that color. Maybe just switching...

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

You're welcome.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

...gears. I think, Steve, maybe this is for you, but anyone feel free is, you know, the \$49 million of R&D spend this year I think was the lowest quarterly total I've seen from you guys. And in your presentation you obviously talk about investing in higher-ROIC projects or acquisitions, but with such a pullback in R&D, like is there risk that you're maybe taking a too kind of near-term approach to margins at the risk of not pulling forward investment to

stabilize top line trends? Can you just help us understand how you think about the actions needed on the R&D and kind of innovation front to stabilize top line versus your prioritization of maybe taking some costs out of the model again, to get that margin expansion? How do you think about balancing those?

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Yeah, look, when we talk about the Reinvention, it's a balanced execution between what we're doing to drive operational efficiencies and investing in our growth businesses, whether it's organic or inorganic growth. The new board coming in, you saw the names of the nominees and we are all looking at how do we invest in the right areas of this business, whether it's organic or inorganically. And we absolutely are investing for the long term of the business and we'll accelerate that. As we free up more cash, as we free up more of the balance sheet and the actions that we've already taken and will take will absolutely drive more headroom that will allow us to take those dollars to reinvest back in our business.

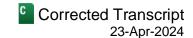
John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

I also think it's important to look at R&D as we normalize it, because there's a lot in the R&D line year-over-year with some of the exits that we had in PARC and some of the divestitures and things like that, that have an impact on what you're viewing. But you are 100% correct that as you do a mix shift and a realignment of your R&D spend from the type of spend it is, we will continue to make investments in the areas in which we see profitable growth capabilities. We just have to do it responsibly and we want to make sure that we can self-fund our innovation and capacity both organically and strengthen the balance sheet, as Xavier talked about through our own capital structure enhancements to do it inorganically. But that's all part of our execution journey.

So we're very mindful of that. We're not cutting our way to prosperity. We're trying to rebalance the company and reinvest in the right categories that we can grow and sustainably grow where our brand has a right to play. Our field distribution has the right to deliver, and we can be successful in those spaces. And that's why it's a rebalancing and that's why it's an OD-driven, not just the cost cutting, it's an organizational redesign of who we are, how we go to market and strengthen our core print, and then invest in the adjacencies that can protect our core print business as much as grow within that same customer set.

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Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Okay, very clear. And then, just one last clarification from my end was just, you know, congrats on the kind of maturity extension that you guys talked about. As we think about capital allocation priorities this year, debt repayment was number two. What other actions do you anticipate taking for the rest of the year that we should be considering on the debt side? And that's it for me. Thank you.

Xavier Heiss

Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Yeah. So, Eric, you know, the maturities that we have for this year is quite limited. So, we are still – so in May we will pay down the remaining part of the \$300 million debt that we have for this. So, this is already in plan, and we already partially paid some of this year. We have as well our secured debt repayment, which is going as planned this quarter, quarter-over-quarter. So we're more like \$100 million of debt reduction on the secured side there. And we are also looking at our Term loan B on how we can improve the condition of the deal currently here. Nothing material. The vast majority of what we are planning to do is in the line of what we have seen and we have communicated here.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Perfect. Thank you so much, guys.

John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

Thank you.

Operator: Thank you. One moment for our next question. And our next question is a follow-up from the line of Ananda Baruah from Loop Capital. Your question, please.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Yeah. Guys, thanks for the follow-up. Just on GBS, it sounded like GBS is sort of putting its arms around a number of functions there. Could you just sort of go back through that and let us know what the [indiscernible] (00:52:52) of GBS is? It almost sounds to me like it was a coordination of all things, kind of like back office and administrative and sort of certain lower-level business processes. But, I guess, could you just go back and put some additional context around that [ph] GBS. Thanks (00:53:12)?

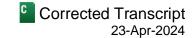
John G. Bruno

President & Chief Operating Officer, Xerox Holdings Corp.

Sure. And you got two shots, two bites at the apple, I love it. So, look, GBS is called Global Business Services, not shared services for a reason. It's a business service function is what our vision is. And both Steve and I, have a long track record and history of implementing these types of organization in our previous lives. And we understand the potential for them and we know we absolutely have the right leader and the right team across GBS to drive our vision for it.

It is not a back office only function, but it absolutely will evolve from more of the core administrations in its first part. So that you always start with the administrative activities around these key areas of records or report or

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order to cash, hire-to-retire, these administrative functions. But as we get consolidation of not only systems and platforms in both our tech stack and our BPO and business process operational stack, we're going to continue to push that up into ways in which we can improve our go-to-market capabilities with more services and things that we can have better inside sales force, type tools and enablement, and we want to drive better platform things into our areas.

So we want our finance, our HR, our legal teams to really focus on policy and strategy initially and have GBS focus on the consolidated operations and platforms. And then we'll continue to do the same in cross-order management and inventory controls and service management, anywhere where we can get tech stack efficiency and business process, operational efficiency through the not necessarily centralization, but the central coordination of activities initially is what we're driving through this team.

So it does go broader than administratively, but we absolutely are starting initially in the areas where we would through the shared services functions in those G&A areas.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah, and Ananda, it's Steve, I'll add one more thing, and that is, as we simplify and get to single end-to-end processes, we then look at how do you apply technology to both elimination and driving more operational efficiencies, whether it's around RPA, whether it's around AI, whether it's around how do we think about chatGPT going forward. So, think of as we centralize and as we standardize on processes, we then have enabling capabilities to drive more operational efficiencies through technology. We've been talking about the journey of RPA for a long time here over the last couple of years. We've been talking about how we're implementing AI and investing more in AI into our processes. And so, GBS will be the function that we look at to really drive leading-edge technology on our end-to-end processes. And some of those we may actually take to market like we do with RPA, like we're doing with some of the other functions that we're building internally.

Ananda Baruah

Analyst, Loop Capital Markets LLC



Got it. That's super helpful. Thank you.

Operator: Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Steve Bandrowczak, for any further remarks.

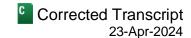
Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

On Earth Day I'd be remiss not to mention our ongoing commitment to providing clients with sustainable products and services. I'm proud to say we are recently named an Energy Star Partner of the Year in 2024, for our fourth year in a row of Global 100 Most Sustainable Corporation from Corporate Knights and we are included in CDP's A list for climate change, transparency and performance.

Recapping today's call, Q1 marked an important milestone in our ongoing Reinvention, with the implementation of comprehensive and strategic operating model changes that more closely aligns our businesses with the needs of our clients. The magnitude and speed of change has caused some disruption during the quarter, but the new operating model has already delivered intended results and is evidenced by momentum in equipment orders and continued strength in our service signings. We look forward to updating you on the Reinvention progress in future quarters. Have a great day.

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Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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