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# Xerox Holdings Corp. (XRX)

## Q3 2026 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Welcome to the Xerox Holdings Corporation Third Quarter 2026 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, Senior Vice President and Head of Investor Relations. Please go ahead, sir.

## Greg Stein
*Senior Vice President, Head-Corporate Development and Investor Relations & Chief Financial Officer-Digital Services, Xerox Holdings Corp.*

Good morning, everyone. I am Greg Stein, Senior Vice President and Head of Investor Relations at Xerox Holdings Corporation. Welcome to the Xerox Holdings Corporation third quarter 2026 earnings release conference call, hosted by Louie Pastor, Chief Executive Officer. He is joined by Chuck Butler, 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. Pastor.


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## Louis J. Pastor

*Chief Executive Officer & Director, Xerox Holdings Corp.*

Good morning and thank you for joining our Q3 2026 earnings call. I'll start with the most important news. Today, we are lowering our full-year adjusted operating income and free cash flow guidance, and our board has suspended our common and preferred dividends. These decisions reflect a quarter of two realities. The parts of the business we've rebuilt are performing: print revenue trends are better, equipment revenue grew, and we expect industry data to show we gained share. But the parts exposed to the market and to input costs got worse, faster than we can offset this year.

Let me begin with the progress. We advanced each of our three priorities: stabilize revenue, increase profitability and reduce leverage in the quarter. Revenue of $1.87 billion declined less than 5%, a 180-basis-point pro forma sequential improvement. Adjusted operating margin was 6.6%, up 330 basis points from a year ago. And we again improved our gross and net leverage ratios.

Print is where the progress is most visible. Print and Other revenue declined 3%, compared with a 10% pro forma decline a year ago. The stronger pipeline we discussed in recent quarters is beginning to convert as equipment revenue grew 3% in Q3, led by double-digit growth in both Entry and Production, more than offsetting double-digit declines in Mid-Range. This was our first quarter of year-over-year organic equipment growth in more than three years. And for the first time since we began reporting them separately, Entry equipment revenue exceeded Mid-Range, reflecting the market's shift toward Entry and the strength of the portfolio we gained with the Lexmark acquisition.

Production remains a bright spot and grew in the quarter, with installs up 13% and equipment revenue up 14%, even before the three new platforms we announced last month at PRINTING United enter the market next year. Together with our Xeikon partnership, which takes us into Packaging and Labels, we believe we're well positioned to gain share in Production. This is a roughly $9 billion growing market, and we are now entering its fastest-growing segments.

So why are we lowering our outlook after a quarter of progress? Four factors are working against us: rising input costs, the shift in our equipment mix, a weaker print market outlook and underperformance in IT Solutions. Together, they are more than we can offset in Q4 alone.

So, let me take each of them in turn. First, input costs. Last quarter, Chuck noted that if memory and oil prices continued to rise, they could put our profit guidance at risk. They have. We now expect a combined impact of approximately $60 million on this year's adjusted operating income from memory and oil, most of it in Q4 as higher-cost inventory flows through cost of goods. To put this in perspective, coming into 2026 memory was about 2% of the cost of a machine. Today, it's 10%, and we expect it to reach 15% in 2027. We're also now seeing knock-on inflation in other electrical components that go into our machines.

On the post-sale side, parts, freight and tariff-affected costs are also rising faster than planned, pressuring service margins. At the same time, service labor doesn't come down as fast as service revenue, because we need a certain density of technicians to cover a territory. So when service revenue falls, most of that decline comes straight out of gross profit. That pressures post-sale margins, and it is why the service model, I'll come back to later, is actually central to our long-term plan for workplace print.

Second, mix. Entry is performing well, with installs up 16% and equipment revenue up 21%. Mid-Range, by contrast, is declining faster than we expected, with installs down 20% and equipment revenue down 15%. This is consistent with an industry-wide shift from Mid-Range to Entry. That matters because the economics of Entry and


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Mid-Range are very different. Entry devices are unprofitable at the hardware level, and the margin gap between an Entry device and a Mid-Range device can exceed 30 points. We make up that profit difference after the sale, through supplies and service, where Entry margins are higher. Over the life of the device, Entry and Mid-Range profitability is about the same. But in the near term, the shift weighs meaningfully on profit, and with Q4, our largest equipment quarter, that impact is magnified.

Third, the market outlook. Based on IDC data, we held share in the first half of 2026, and with equipment revenue up 3% and installs up 9% in Q3, we're confident we gained share during the quarter. But the market itself has weakened. The second half typically brings a meaningful seasonal lift: IDC shows second half unit growth over the first half of about 11% in 2024 and 7% in 2025. For 2026, IDC now forecasts just over 1%, as higher costs, geopolitical uncertainty, and competing IT priorities weigh on demand. While we are holding revenue guidance at approximately $7.6 billion and are positioning ourselves to grow share, we'll be doing so in a softer market, with lower volumes weighing on profit.

Fourth, IT Solutions. After strong performance following the November 2024 acquisition of ITsavvy, with pro forma billings up 12% in 2025 and 21% in Q1, growth slowed. Last quarter, I attributed this partly to rebuilding our sales force. The benefits of that rebuild are taking longer than expected: the funnel is there, but conversion hasn't improved yet. Tighter supplier and distributor terms, specific to IT Solutions, have also added friction. With backlog up 24% and a larger Q4 pipeline, we expect a better year-over-year comparison in Q4 than in Q3, but we have work to do. What hasn't changed is the quality of the platform: a full lifecycle offering from procurement through managed services, a deep bench of engineers, strong partnerships with Microsoft and leading OEMs, and a scalable, highly automated delivery model. The demand is there, and we're focused on converting it.

Here is what we are doing about all of this. Let me separate our actions for the fourth quarter from the reset of our cost and margin structure for 2027 and beyond. In the fourth quarter, we've already moved to a weekly, deal-by-deal review of the business. Our late-stage pipeline is still up meaningfully, so our focus is conversion and install timing. Every late-stage opportunity now carries a committed install date, with sales, supply chain, and service delivery all working from the same list. We have also frozen discretionary spending, including non-essential travel and hiring outside revenue-generating roles. These actions are about delivering the guidance we're giving you today.

For 2027, we are acting on three fronts. First, price. Beginning in the first quarter, we are implementing pricing actions across our portfolio, segmented by product and market, and tightening placement discipline so that Entry placements meet higher payback thresholds on their lifetime economics. Because part of our post-sale revenue is under multi-year contracts that reprice only at renewal, pricing will only offset some of next year's cost increase, not all of it, and the benefit builds through the year.

Second, cost. The Lexmark synergy program remains on track. On top of it, we are taking further actions that began this month and run through next year, including further simplifying our organization and management structure, expanding the use of our global capability centers, which now represent about 15% of our workforce, up from 11% at the start of the year, consolidating distribution centers and real estate, and renegotiating key vendor contracts. We will size the full program when we provide our 2027 outlook next quarter.

Third, IT Solutions. We are aligning the cost base with the current run rate, including through our ITaaS and INOC autonomous delivery platforms and expanding agentic solutions across the business. That builds scale and operating leverage into the platform. We are also implementing additional measures to improve our competitiveness on larger deals. We are also acting on the balance sheet, because reducing debt remains our top


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capital allocation priority. Our board has suspended our common and preferred dividends effective immediately, preserving approximately $28 million a year of cash to strengthen our liquidity and support deleveraging.

And today, we announced an exchange of approximately $174 million of our 2028 senior notes for 2030 first lien notes and equity, at the equivalent of $0.75 on the $1, reducing our overall debt by $53 million and extending nearly a third of our 2028 maturities by two years. Together with the debt we have already retired this year at a discount, these actions keep us on a path to lower leverage over time.

Beyond these near-term actions, our biggest long-term profit opportunity is service, which is our largest cost base. It was a central theme at our Partner Summit in Nashville earlier this month, our biggest to-date, with more than 500 partners from 70 countries. In Workplace Print, every page has three costs: equipment, supplies and service. The first two are physical products, so there will always be a cost, but service is different. Every service call starts with a machine breaking down, and that's something we can engineer out. Our goal is to drive the cost of service disruption toward zero, and we believe we are best positioned in the industry to do so.

That's because we now own the full technology stack. The 9-Series, for example, has about 500 fewer parts than the externally sourced generation it replaces, with a single access door and one paper path, so there's less to fail. Because we design the devices, we decide where the sensors in the device actually go and what data they capture, something you can't bolt on later. Across our connected fleet, AI can now flag failures before they happen, and we've made remote resolution our default, both in our contracts and in how we hold every region accountable. Today, a little over half of the service calls that reach our client experience center are resolved without sending a technician, and our target is 70%. That means more uptime for customers, fewer truck rolls for partners, and a structurally lower cost to serve for Xerox.

The opportunity is significant. We have nearly 9 million devices in the field, and our service, maintenance and rentals business generates more than $3 billion of revenue a year, with a significant portion of the cost to deliver it addressable. Every device we bring onto this model lowers that cost, giving us more pricing flexibility while expanding our margins.

And we are already seeing proof points. The 9-Series has generated about 50% fewer service calls than the prior generation, and partners are telling us it is delivering on the reliability and remote resolution we promised. This shift won't happen overnight, but it will happen, and we believe no competitor relying on third-party engines can match it.

Let me close with this. This is not the outlook we wanted to give you today, and I'm not going to dress it up. Some of what we're facing originates outside of our control, like memory and oil. Some of it is ours to fix. In both cases, our job is the same: be clear about what happened, act quickly, and own the result. Memory, oil and tariffs we can price for over time and increasingly design and source around. The shift toward Entry and the cost of service are structural, and the actions I've described today are built to address them.

We'll provide our 2027 outlook on our fourth quarter call. Pricing, the cost program and the service model are its building blocks, but they are set against input costs we expect to be a larger headwind next year than this year, a mix shift that will continue, and a challenging workplace print environment. At the same time, the foundation of this company is stronger than it was a year ago. Our print trends are improving. We now own the full technology stack. Our service model gives us a structural cost advantage that will build over time.

Production is growing, with new platforms coming online next year. And we continue to strengthen the balance sheet. We are resolute in our priorities: stabilize revenue, increase profitability and reduce leverage. In the near


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term, our number one focus is disciplined execution: delivering the actions that help offset these headwinds, protecting cash, and continuing to reduce our debt.

With that, I'll turn it over to Chuck to walk through our financials and guidance in more detail.

## Chuck Butler

*Chief Financial Officer, Xerox Holdings Corp.*

Thanks, Louie. Good morning, everyone. Before we get into the details, a reminder that the Lexmark acquisition closed on July 1, 2025, so this is the first quarter in which both the current and prior-year periods include Lexmark. As Louie noted, we advanced each of our three priorities in the quarter, but the outlook is more challenging. I'll cover the quarter, then cash and the balance sheet, then the updated outlook and what it means for leverage.

Q3 revenue of $1.87 billion fell less than 5% year-over-year on a reported and a constant currency basis, compared to a 7% pro forma decline last quarter. Q3 marked the first quarter of year-over-year equipment sales growth on an organic basis since Q2 2023. This is important because equipment sales are a leading indicator for the broader Print business.

Turning to profitability, adjusted gross margin was 29.5%, up 60 basis points year-over-year. That includes $20 million of IP licensing income, which contributed about 70 basis points. Excluding licensing, gross margin was slightly down, as transformation benefits and favorable supplies mix and pricing were more than offset by higher memory and oil prices, equipment mix, lower managed print volumes, and lower finance fees. The lower finance fees are an expected result of our move to a capital-light financing model.

Adjusted operating margin was 6.6%, up 330 basis points year-over-year, driven by higher gross margin and lower operating expenses. Operating expenses were $73 million lower than last year, reflecting restructuring and integration savings, lower bad debt and marketing expense, and a lower bonus accrual reflecting our reduced 2026 outlook.

Non-financing interest expense was $93 million, up $13 million year-over-year due mainly to higher net interest expense associated with the TPG JV financing. GAAP loss per share was $7.73, which includes a non-cash goodwill impairment charge of $959 million in the Print and Other reporting unit reflecting a lower long-term forecast driven by current input costs and market conditions. It has no effect on cash, liquidity or our debt covenants.

Adjusted EPS of $0.02 reflects higher interest expense and a higher adjusted tax rate of 70%, which more than offset the improvements in operating income. As discussed on prior calls, the adjusted tax rate remains volatile because of the valuation allowance we carry against certain deferred tax assets.

Let me review segment results. Starting with Print and Other, Q3 equipment revenue was $393 million, up 3% in reported and in constant currency. Entry grew 21% and Production grew 14%, more than offsetting a 15% decline in Mid-Range. Print and Other post-sale revenue was $1.3 billion, down 5% as reported and down 4% in constant currency. The decline was mainly due to lower service, outsourcing, and financing income.

Print and Other adjusted gross margin was 30.6%, up 60 basis points driven by transformation benefits, licensing income and supplies pricing and mix. These factors were partially offset by higher input costs, equipment mix, and lower managed print volumes. Print and Other segment margin was 8.1%, up 440 basis points, driven by higher gross margins, integration savings, and lower compensation, marketing and bad debt expense.


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Turning to IT Solutions. Revenue was $187 million, down 17% year-over-year, with products down 23% and services down 7%. Gross billings, which better reflect customer activity because more of our transactions are now recorded on a net basis, were $226 million, down 14% in the quarter but still up 1% year-to-date. The revenue decline reflects lower billings, a higher mix of net recorded transactions and a lower deferred revenue balance, against a strong prior-year quarter. On profitability, gross profit was $35 million, reflecting a margin of 19.4%, down 40 basis points year-over-year, driven by lower volume, rebates and mix. Segment profit was $8 million, reflecting a profit margin of 4.4%, down 370 basis points year-over-year on lower gross profit, as well as investments in the sales organization.

Moving to our cash flow and capital structure. For the quarter, operating cash flow was $30 million, compared to $116 million last year, reflecting higher adjusted net income more than offset by lower proceeds from financing assets. Investing activity was a $24 million use of cash compared to a use of $682 million a year ago as the prior-year quarter accounted for the Lexmark acquisition. Financing activity resulted in a $27 million use of cash, mainly reflecting $8 million of dividend payments and a $14 million repayment related to tariff receivable monetization.

Free cash flow was $7 million, down $81 million year-over-year, reflecting $131 million less cash from our shrinking finance receivables portfolio. Excluding cash generated from finance receivables, free cash flow improved approximately $50 million versus last year, driven by higher operating income. We ended the quarter with $530 million of cash, cash equivalents and restricted cash.

That includes approximately $412 million of unrestricted cash which, together with approximately $314 million of ABL borrowing base net of LCs, gives us total liquidity of roughly $726 million. Restricted cash increased to $118 million, reflecting cash held for interest and amortization payments on the TPG joint venture and higher collateral requirements. From a liquidity perspective, this is partially offset by lower letters of credit outstanding under our ABL.

Total debt was $4.2 billion. Approximately $1.3 billion supports our finance assets, with the remaining $2.9 billion of core debt attributable to the non-financing business. Gross and net leverage were 5.4 times and 4.7 times trailing 12-month EBITDA, down from 5.9 times and 5.1 times last quarter. Debt reduction remains our capital allocation priority, and our near-term maturities are manageable. Following the $20 million of TPG JV-related payments we made earlier this month, we have less than $160 million of scheduled debt maturities through 2027. Our next significant maturity is August of 2028.

This morning, we announced an agreement with an ad hoc group of lenders to exchange approximately $174 million of August 2028 senior notes for first lien senior secured notes due October 2030, at $0.69 on the $1, and common equity at $0.06 on the $1. The transaction reduces our total debt principal by approximately $53 million. After the exchange, approximately $382 million of the August 2028 notes will remain outstanding, down from $750 million at the beginning of the year.

As Louie noted, the board has also suspended the common and preferred dividends, preserving $28 million of cash annually. We are in compliance with all of our covenants, and we have sufficient liquidity to run the business and meet our obligations.

Before I discuss guidance, let me spend a moment on Xerox Financial Services. XFS has long supported how we serve customers, providing financing that drives equipment sales, strengthens customer relationships and supports post-sale revenue. A few years ago, we engaged external advisors to conduct a strategic review of XFS


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and evaluate a range of alternatives. That process concluded that the greatest value would come from retaining origination and customer relationships while partners fund the book.

Since then, through forward-flow and back-book sales, we've reduced net finance receivables from about $3.1 billion in 2022 to approximately $1.2 billion today, accelerating cash realization and reducing the debt needed to support customer financing. As we've consistently said, we continue to look for ways to reduce receivables on our balance sheet and unlock cash for the business.

Now for guidance. We are maintaining our full-year revenue guidance of approximately $7.6 billion while remaining mindful of the market dynamics Louie described. We now expect adjusted operating income of $450 million to $475 million, down from $555 million to $605 million previously. The change primarily reflects continued pressure from memory and oil prices, now an approximately $60 million headwind for the year; the mix shift from Mid-Range to Entry; a weaker Print market outlook; and lower IT Solutions performance. In addition, while tariff rates have come down, higher costs on tariff-affected inputs are keeping our ongoing tariff impact at approximately $90 million in 2026, similar to last year but higher than we had forecasted.

We now expect free cash flow of $50 million to $100 million, down from approximately $250 million, for three reasons. First, lower adjusted operating income, which is roughly $100 million of the change. Second, we now expect $300 million of cash from finance receivable sales this year, down from $335 million. Third, the timing of the tariff refunds: we had assumed $80 million would come in this year, and we now expect about $30 million, with the remaining $50 million in 2027. As we discussed last quarter, we sold these refund receivables and already have the cash. When refunds are collected, they move from financing to operating cash flow, so this affects the timing of free cash flow, not our cash.

The fourth quarter is seasonally our strongest cash quarter, and the range reflects the timing of year-end collections, a planned back-book receivable sale, and a reduction in the inventory we built in Q3.

Our updated guidance implies a year-end gross and net leverage of approximately 5.6 times and 4.7 times trailing 12-month EBITDA, respectively, roughly flat with Q3. That compares with our prior expectation of below 5 times and 4 times. It remains well below the 7 times and 6 times at the end of Q1. Our long-term leverage targets haven't changed, but the timeline to reach them has extended, and we'll lay out our path when we provide our 2027 outlook.

The updated leverage guidance includes the net benefit of the announced debt exchange and $12 million of warrant-related debt reduction: $8 million in Q3 and $4 million after quarter-end. It does not assume any additional debt reduction from repurchases or warrant conversions for the remainder of the year, and it does not reflect savings from the dividend suspension, which begin in Q1 2027.

Before we open the line, let me put the cost actions Louie described in context. Our Lexmark integration synergies remain on track, and we expect them to deliver approximately $100 million of additional year-over-year savings in 2027. On top of that, we are launching an incremental cost program to simplify our organization and management structure, move more work into our global capability centers, consolidate distribution centers and real estate, and reduce procurement costs. We expect input costs to be a larger headwind in 2027 than in 2026. Together with the pricing actions that begin in the first quarter, these programs are designed to offset it. We will size both the headwind and the programs for you with our 2027 outlook on our fourth quarter call.

To sum up, the actions within our control, including integration savings, transformation and debt reduction, are being delivered, and you can see them in our operating expenses and our leverage trend. What moved against us


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was gross profit: input costs, mix, and a post-sale cost base that we are now resetting. We have sized the impact on 2026, and the actions to address it are underway.

With that, I'll turn the call back to the operator for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] Our first question then comes from the line of Joseph Cordero (sic) [Joseph Cardoso] (00:29:00) from JPMorgan. Your question, please.

**Marc Vitenzon**
*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning. This is Marc on for Joseph Cardoso. I guess my first question is regarding some of the commentary around IT Solutions regarding tighter supply and distributor terms. Could you just maybe expand a little bit around that, and I guess what that means for maybe the longer-term free cash flow outlook?

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah. Good morning, Marc. Thanks for joining the call and for the questions. So, I think if you take a step back on the IT Solutions business, Q3 for us is a little bit of a tougher comparison year-over-year because Q3 last year had included two quite large K-12 rollouts. But I would say kind of beyond that comparison, some of the things that we've talked about is growth has been slower than we plan because our new sellers are ramping up more slowly than expected. And that's happening in a market where price increase, particularly in endpoints, are lengthening customer decisions. So, you can see that decline primarily in product resale, services were only down modestly. But with backlog up 24%, I would say we enter Q4 with a pretty strong position.

But specific to your question, I would say the things that are impacting the business the most right now that we think we can outrun ultimately are getting this sort of reinvestment in the salesforce really ramped. That's somewhat unique to us versus the market. Our credit profile, which is what you touched on, was sort of vendor and supplier distributor terms that's somewhat unique to us.

But then there's sort of overlaying it on a macro environment that is not unique to us. But together, I would say that those factors kind of make it take a little bit longer for these sellers to ramp. And that's just what we're seeing today. But like I said in the prepared comments, certainly it doesn't impact our long-term view of the strength of this business, the opportunity with our existing installed base, or frankly, the value that comes from the platform that we've built.

**Marc Vitenzon**
*Analyst, JPMorgan Securities LLC*

Q

Got it. Got it. Thank you. And then, I know that you guys said that you would provide more details on the 4Q call regarding efforts to kind of offset the input cost inflation headwind. I guess, maybe, if you could still go into a few more of the details regarding the various levers that you have and your degree of confidence, right, in normalizing for any incremental headwind that you get in 2027 from here on?


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**Chuck Butler**
*Chief Financial Officer, Xerox Holdings Corp.*
A

Yeah. No, I appreciate the question, Marc. And we're right in the middle of that now. We know that based on the Lexmark synergies, we have approximately $100 million of additional year-over-year savings to come in 2027. And on top of that, we're looking at incremental cost programs to simplify the organization, the management structure, how do we leverage our global capability centers more, what kind of pricing can we pass on to the end customer, look at our footprint in distribution and through real estate and reducing our procurement costs. And all of these conversations are ongoing right now.

The goal is we know we have to outrun the headwinds that are running out of $60 million this year. That's roughly half a year. That'll be a full year of impact next year and then some. And we know that we have to outpace those and put together those actions. How will it be received in the marketplace? We do see some movements in price as some of our competitors have passed some of these on. And we'll continue to explore what that looks like. The price – the market ultimately dictates what they're willing to accept in terms of price increases. But we'll be a fast mover on anything that we can and make sure that we cover any additional costs or do our best to cover any additional costs that we have.

**Marc Vitenzon**
*Analyst, JPMorgan Securities LLC*
Q

Understood.

**Chuck Butler**
*Chief Financial Officer, Xerox Holdings Corp.*
A

Anything to add, Louie?

**Operator**: Thank you. And our next question comes from the line of Ananda Baruah from Loop Capital. Your question, please.

**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*
Q

Hey, guys. Thank you for taking the questions and apologies for the confusion at the beginning of the call. I may have missed this. Hopefully not. Louie, the exchange – I guess, as you look out at the future debt ladder, could there be – could you utilize exchange transactions in the future or something of the like? And if you haven't made a remark, I may have missed it, if you haven't made a remark about what that interplay could look like as you guys sort of look at it today, any context there would be helpful. And then I have a follow-up. Thanks.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*
A

Yeah. Hey. Hey, Ananda. Thanks for the question. Look, I would say, we are always evaluating every opportunity that could be available to us to – in my sort of analogy that I've used in the past, lower the heights of the hurdles, right? So we know we've got – we've been primarily focused on the 2028 maturities since it's coming up first. And we entered the year that was about $750 million and now we've cut it effectively in half. So, it's good news. And we're going to utilize every kind of tool in the toolkit to address the maturities that we have both in 2028 and those that come after that.


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**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*

Q

Okay.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

I wasn't clear, sorry, Ananda, on the second part of your question about the interplay, what specifically you were talking about?

**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*

Q

Yeah. No, Louie, that answers it. Yeah, that answers it. The interplay remark was just sort of contextual as part of the question, but that totally answers it, 100%.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Got it. Thank you.

**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*

Q

Thanks. And I guess on the print market dynamics, I guess like my quick guess would be that lines of business are shifting budget over to AI because that seems to be happening that budgets shift. And so maybe there's some non-CIO budget from LOBs that is shifting over. Do you have any sense of that? And I guess the question there, Louie, is, if that's – if there's something like that happening and so there's like a structural nature to what's going on, have you guys yet thought ahead anything you can share with us about sort of getting ahead of incremental structural dynamic? Quite frankly, it's kind of new this year, if this is a new normal...

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah. So, it's a...

**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*

Q

...it takes for a while.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah, it's a great question, Ananda. I would say the observation that you're making about sort of the shift in technology budgets more and more towards AI and compute and software and agentic solutions associated with those things and away from hardware infrastructure, but particularly Print, we are definitely seeing some of that. And I think, overall – so, yes, there is a structural shift. And I think our response to that structural shift is actually our approach to service. So, this point that, look, there are three inputs...

**Ananda Baruah**
*Analyst, Loop Capital Markets LLC*

Q


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Yes.

### Louis J. Pastor
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

...to Print. There's the costs of the equipment, there's the costs of the supplies, and there's the costs of service. The laws of physics prevent you from bringing the costs of the equipment or the costs of the supplies to zero. But the laws of physics do not prevent you from bringing the costs of service to zero. And so in order for us to take as much of the market share that exists out there that we can, that is the structural advantage we can create for ourselves. And then if we are differentiated on price and experience, because that allows us to differentiate on both, not just price, that is a winning combination for a market that, yes, is structurally challenged.

### Chuck Butler
*Chief Financial Officer, Xerox Holdings Corp.*

A

And if I can just add a little bit on top of that. Typically, the first place you'll see that, Ananda, is on the ESR side of things. We grew in the third quarter for the first time since 2023, which is encouraging. But to be candid with you, ESR is a really important metric for us to look at because it's an indicator of our installed base and how our installed base is moving. But what's more important than what I saw on the prior period is are the printers that I've already placed still out there printing and being serviced by us.

So, we monitor and manage our installed base as much as we can, and that's really the metric we look at. If there's some slight ESR miss in the quarter, we can absorb that as long as the printers that we've already placed are still out there printing. And then we have this mix shift going on that we mentioned from Mid down to the Entry, which actually provides benefit to some of those softening budgets because it moves from the Mid down to the Low.

### Louis J. Pastor
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yes. So, just maybe the last thing just to build on Chuck's comments, too, is the barbell strategy that we have with respect to equipment to focus more on Entry and Production where there's more secular growth even in a structurally challenged market and less on Mid, it does have this margin – equipment margin headwind associated with it, but long-term profitability, it actually should enhance.

### Ananda Baruah
*Analyst, Loop Capital Markets LLC*

Q

Helpful context. Really appreciate it, guys. Thanks.

**Operator**: Thank you. And our next question comes from the line of Asiya Merchant from Citigroup. Your question, please.

### Asiya Merchant
*Analyst, Citigroup Global Markets Canada, Inc.*

Q

Oh, great. Thanks for taking my call. A couple of quick ones for me, just on the Print dynamics. Louis, you've talked about lower volumes weighing on profitability will be gaining share. Just what do you think the competitive response is and how much of that's kind of factored into your outlook for margins here in the fourth quarter? And then, obviously, you guide for 2027, but how should we think about the competitive dynamics in response to just the mix shift, which I'm sure the rest of the industry is probably also facing?


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**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah, it's a great question. Look, this is a highly competitive market. Despite the structural challenges that Print faces, you have effectively 10, call it, highly global scaled competitors. Now, not everybody makes all of their own equipment and necessarily controls their full costs or technology stack. And so people have different levers to compete differently in the markets in which they're strong, and not everybody's strong, every region across the globe or every segment of the market.

We feel pretty good about the portfolio that we have in terms of – on a product basis, right, as well as our strength in the markets and the reach that we have with our channel partners and our direct salesforce. So our coverage is good. But everybody is dealing with the same headwinds. And so, the strategies of the past where people were, I think, trying to just simply price-cut their way to share gains is more strained, not just for us. That wasn't necessarily our strategy, but I think it is more straining for some of our competitors in the market, because they too are trying to pass along some of these costs that they're incurring.

So, it's factored into our guidance. But certainly, we have scenario-based planning depending on how the sort of the largest movers in the market can change the pricing dynamics. So far, we've seen, I think, fairly rational behavior in response to the challenges that everybody's facing. I mean, Chuck referenced earlier some of our competitors have raised prices. But it's going to continue to be a highly dynamic and competitive environment.

**Chuck Butler**
*Chief Financial Officer, Xerox Holdings Corp.*

A

And I'll just add a little bit on top of that. One thing that we like about our position is, we're actually uniquely positioned to be able to take advantage of whatever the market does because we have the Indian stack underneath our control now. So, it's factored in our fourth quarter outlook, and it will be a factor as we come to you with those earnings in our 2027 plan.

**Asiya Merchant**
*Analyst, Citigroup Global Markets Canada, Inc.*

Q

Okay. And then, just a quick one on IT Solutions. I understand the challenges here as the resellers are ramping up. But I think this market – at least with respect to – as I think about it, we had looked at possibly this segment being, let's say, low-double digit or high-single digit kind of grower. Given that billings and bookings right now are like 1% and 5%, respectively, like how should we just broadly think about the growth in this market for you guys? Is it still something that we should look at as a, like I said, high-single digit, low-double digit grower going forward?

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah. I think over the kind of the medium and longer term, yes. I think the challenge that we're having is very sort of near term in nature in terms of the ramp of the sellers, the conversion, the velocity of the pipeline. We've seen projects being delayed. Clients are sweating their assets longer. So that sort of makes the timing of the funding a little bit less predictable. But it's not like we're seeing projects cancelled or clients leaving or things that would tell us that our business is going to underperform the market over the long term or even over the medium term.

So, we're still quite confident in our ability as we ramp these sellers and we see conversion start to increase, leveraging the existing clients and installed base that we have on the Print side as well and the relationships we have. We still believe there's an opportunity to perform consistently with the market overall and over time, outperform it. But that certainly – and we did see some of that actually in the past, right? I mean, when we talked


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about what this business looked like sort of post the ITsavvy acquisition all the way through Q1 of this year. So, we see an opportunity to get back to that, but it's going to take a little bit of time.

**Asiya Merchant**
*Analyst, Citigroup Global Markets Canada, Inc.*

Q

Okay. Thank you.

**Operator**: Thank you. And our next question comes from the line of Michael Kupinski from Noble Capital Markets. Your question, please.

**Michael A. Kupinski**
*Analyst, Noble Capital Markets, Inc.*

Q

All right. Thanks for taking my questions. You obviously talked a little bit about Lexmark and the prospect for an incremental $100 million in synergies next year. I was just wondering if you can just like maybe talk a little bit about and add some color on the incremental savings that should translate into operating income and how much could be offset by like maybe your competitive pricing, your reinvestment or declining revenue? And on that front, I was just wondering if you can talk a little bit about what are the major integration milestones you might have left, particularly in manufacturing, your distribution, IT infrastructure? And so if you could just add a little color on where you are on the integration.

**Chuck Butler**
*Chief Financial Officer, Xerox Holdings Corp.*

A

Yeah. Thanks. Thank you for the question. And Louie, I'll start. Maybe you add on, on the back end of it.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yes.

**Chuck Butler**
*Chief Financial Officer, Xerox Holdings Corp.*

A

Yeah. The synergies that we're realizing this year and the actions that we've taken throughout the year, this year, you'll get a full year of those benefits next year and that's what's going to drive the $100 million of incremental profitability that we mentioned into the 2027 plan. The further actions that we continue to work on are really driven around the big one, driven around the complete adoption of the internally developed A3. We just got big traction on that or more traction in Q3. It'll grow in Q4 and then you'll get a full year benefit of that throughout next year.

The other capabilities, the growth in our global capability centers, which we acquired with Lexmark as part of the acquisition, we continue to expand in those areas at a rapid pace, and that's a big cost savings unlock for us. In addition to that, right, there's still other opportunities inside our business as we either simplify our back office structure and look at the way our operating model works today. And then, we'll pass price on as well. It will be a balance between the two to help us offset the headwinds that we're seeing.

**Louis J. Pastor**
*Chief Executive Officer & Director, Xerox Holdings Corp.*

A

Yeah, Mike, it's a great question. I think the – maybe the thing I would just build on top of Chuck's comments in particular on, I'll use the GCCs as an example. There was a tremendous amount of synergy and cost savings


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simply from consolidating work, right? So in-sourcing from previously outsourced partners and moving work from different parts of the globe into a single center. And that's primarily what the synergies have delivered so far.

There's a whole body of work then beyond consolidation when you start to get into standardization of activity and on systems and then optimizing, automating, orchestrating the work. And so, there's definitely additional opportunity beyond continuing to consolidate work in these centers. But then to do those next stages, so you asked about milestones, and that's sort of the maturation process that we're on. And we do think there's incremental – potentially significant incremental savings that can come from that. And it's one of the things that we're sizing for the impact for next year, and we look forward to discussing more on next quarter's call.

### Michael A. Kupinski
*Analyst, Noble Capital Markets, Inc.*

Q

Got you. And then Xerox Financial Services receivables declined, as you mentioned. How much additional cash can be released through receivable sales? And what are the implications for future financing income and the company's ability to support equipment sales?

### Chuck Butler
*Chief Financial Officer, Xerox Holdings Corp.*

A

Yeah, I appreciate the question, Mike. We started and I said it in my script at $3.2 billion on the balance sheet in 2022. We currently sit at just above $1 billion and that's delivered cash back to the business throughout that timeframe. And we've – but we still have $1.2 billion and we still leverage kind of this co-model between carrying some on our balance sheet just because it makes more sense for some of the customers that we deal with. So you're always going to have a piece of that book on your own balance sheet, that's finding the right level for where that sat. We've said in the past we think it'll be about $1 billion, but if we can push that to lower levels, we'll continue to look at opportunities to do that.

### Michael A. Kupinski
*Analyst, Noble Capital Markets, Inc.*

Q

Got you. Thank you. That's all I have for now. Thank you.

### Chuck Butler
*Chief Financial Officer, Xerox Holdings Corp.*

A

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 Louie Pastor for any further remarks.

### Louis J. Pastor
*Chief Executive Officer & Director, Xerox Holdings Corp.*

Thank you. Look, this quarter brought a mixed message and we've been candid or we definitely tried to be candid about all of it. Our Print business is gaining momentum. It continues to gain momentum. Our technology is starting to change the cost of serving customers. And our balance sheet is improving. At the same time, the external environment is getting tougher and we've reset our expectations to reflect that.

In the end, this business runs on trust. Our clients trust us to keep their operations running, and that trust earns the renewals and the annuity that fund our plans. Investors extend us a version of the same trust that will be


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straight with you, telling you the good, the bad, and that we'll follow through on what we need to do. We know what needs to be done. When this call ends, we go back to work on it.

Thank you for your time this morning, and we look forward to updating you next quarter.

**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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