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Xerox Holdings Corp. (XRX)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Xerox Holdings Corporation Second 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.

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-Investor Relations at Xerox Holdings Corporation. Welcome to the Xerox Holdings Corporation Second Quarter 2026 Earnings Release Conference Call hosted by Louie Pastor, Chief Executive Officer. He's 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 expressed permission of Xerox.

During this call, Xerox executives will refer to slides that are available on the web at wwww.xerox.com/investor (sic) [investors.xerox.com], 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.

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

Good morning, and thank you for joining our Q2 2026 earnings call. Before I get into the quarter and some of our recent initiatives, I'd like to step back and share how I think about the business and our current priorities, because context matters as much as the numbers. As I've spoken with employees; met with investors; and engaged with clients, partners and vendors from this seat, I've used an analogy to bring our priorities to life, particularly in the context of our capital structure. The analogy has resonated well, so I thought it was worth repeating during today's call.

We are running a race. The race has three hurdles. The hurdles are our 2028 debt maturities, our 2029 debt maturities, and our 2030 debt maturities. Our first priority, stabilizing revenue, is about how fast we run. Our second priority, increasing profitability, is about how high we jump. And our third priority, reducing leverage, is about lowering the height of the hurdles. Every action we take, every decision we make is now framed by these three priorities because this is how we win the race. If an initiative doesn't advance one of these three priorities and we don't pursue it, period.

On balance, we made real progress against each of our three priorities in Q2. Revenue of $1.92 billion increased 22%, reflecting the inorganic benefits of the Lexmark acquisition. On a pro forma basis, revenue declined nearly 7%. This looks like a deceleration from Q1, but it's not. Adjusting for Q1's currency benefit and the supplies pull forward we flagged last quarter, our revenue trajectory modestly improved on a year-over-year basis in Q2.

Adjusted operating margin rose again to 10.6%, up 690 basis points year-over-year on a reported basis. Excluding the benefit of tariff receivables, which Chuck will discuss in detail, adjusted operating margin would have been 5.1%, up 140 basis points year-over-year. Importantly, pro forma gross margins expanded year-over-year, a trend we expect to continue, helped by Lexmark synergies.

Finally, in Q2, we reduced our total debt by $223 million and improved both our current, gross, and net leverage ratios, as well as our year-end leverage targets. Collectively, Q2 results gave us the confidence to raise our full-year 2026 revenue guidance by approximately $100 million higher expectations for Print & Other. We're also raising our adjusted operating income guidance. The increase reflects both the onetime tariff recovery Chuck will cover in detail and real, growing confidence in the plan itself. Two quarters in with the first half delivered and our synergy target now at $350 million, we're holding the operational line even as we absorb higher memory and oil costs.

The quarter had real positives, but two areas aren't yet where we need them to be, and I want to address both directly. I want to talk about what happened, what we're doing about it, and why I'm confident we'll see improvements as the year progresses and into next year. First, equipment sales. Pro forma revenue declined in the quarter, mainly driven by softer mid-range and lower OEM sales, but demand signals remain encouraging. Our overall print pipeline continues to track ahead of last year. The macro picture outside of the Middle East remains stable. And we continue to see growth opportunities in both our Entry and Production segments.

Specific to Entry, demand in the quarter ran ahead of our Q2 forecast, and we couldn't fully supply it, pushing installs and revenue into later quarters and creating a backlog we expect to work down over the second half of the year. In June, we launched our first hardware under the unified Xerox brand, a new entry color printer in MSP lineup targeting the small workgroup segment, one of the fastest-growing areas in print. These products bring the combined capabilities of Xerox and Lexmark to market for the first time and sharpen our competitiveness. Entry color installs rose in the quarter, even though the products had only been available for a few weeks.

I also want to speak about the 9-Series, a product, I believe, will drive our mid-range success over the next several years. Historically, Xerox sourced all mid-range equipment from a third party. This limited our ability to manage cost, working capital, availability, and ultimately our competitiveness. The 9-Series changes that. This is a platform we built ourselves as a direct result of the Xerox and Lexmark combination, and it gives us something we've never had in this segment, control. Here is what that means in practice.

The 9-Series cost us less to build with stronger economics across the platform. For our clients, our internal analysis shows a total cost of ownership advantage that becomes increasingly compelling at faster print speeds across equipment, service, and supplies. Better economics for Xerox, better economics for our clients. To our channel partners and to anyone weighing a mid-range refresh, now is the time to take a hard look at the 9-Series. We built it, we stand behind it, and we'll put it up against any competitor's product.

The other area I want to address is IT Solutions. Billings grew again in the quarter and the pipeline is building. New business though, faced near-term pressure, and part of that is deliberate. We're rebuilding the sales force here, ramping seller productivity, adding technical sales engagement, and sharpening our cross-sell motion. Newer sellers take time to reach full stride, so the transition is weighed on both near-term signings and short-term operating profit. We knew it would. There's also some friction from our current credit profile, which we expect to ease as we reduce leverage.

We expect Q4 billings ahead of Q3 year-over-year and a better finish to the year as newer sellers build their books and deal conversion improves. And revenue should begin tracking more closely with billings as we move into next year. The long-term prospects for IT Solutions remain strong, and the market opportunity is large and growing, bringing us back to our first priority, stabilize revenue. Our higher full-year 2026 revenue guidance assumes year-over-year trends for both equipment and IT Solutions improved in the second half of the year.

Turning to increase profitability. We've raised our Lexmark integration synergy guidance to at least $350 million, a $50 million increase from our prior target, primarily driven by incremental IT efficiencies, expanded sourcing and logistics benefits, and the migration of selected service delivery activities into lower-cost shared service operations. We expect half of these synergies to be realized in 2026, with the remainder flowing through in 2027 and 2028. This, along with higher revenue, has allowed us to offset a large portion of the additional memory and oil price headwinds we've endured since we first provided guidance six months ago.

Finally, reduce leverage. In addition to paying back our $125 million bridge loan at the end of June, we retired $99 million of our debt in the open market in Q2, mainly through the repurchase of our 2028 notes. Over the past two quarters, we've reduced the 2028 maturity wall by nearly $200 million; or to revisit my analogy, we've lowered the height of the first hurdle in our race by more than 25% during the first half of this year.

At the end of Q1, our gross and net leverage ratios were 7 times and 6 times, respectively. At the end of Q2, our gross and net leverage ratios fell to 5.9 times and 5.1 times, respectively. Based on our current guidance, we now expect our year-end gross and net leverage ratios to fall by more than 2 turns versus Q1, better than our prior forecast of 1.5 turns to less than 5 times and 4 times, respectively. To the extent we have excess liquidity operating the business, we'll continue to take advantage of the dislocation in our bond prices to further lower the hurdles in front of us.

As we think about the future of this business, our priorities are clear: gain share in Entry and Production; protect our mid-range base; and expand our addressable market in IT Solutions and Digital Services. We're deliberate about how we do it: retaining and strengthening the base; reducing avoidable account loss; improving renewal quality and breadth; and growing wallet share with existing clients. With the Xerox and Lexmark sales forces recently coming together and the coverage, incentive, and process design now more firmly in place, we are being more proactive in pursuing new logos, market expansion, and partner motions. It'll take time, but the model is set. Now, it's about execution.

Before I hand the call over to Chuck, I want to put in a plug for our production business. When we retired three legacy products in 2024, some of our competitors tried to spin it as Xerox exiting production. That narrative is wrong. We're investing in production and reshaping the portfolio, moving into higher-growth segments and bringing new technology to market. We've already launched the IJP900 and the Proficio PX300 and PX500. And over the coming quarters, you'll see the rest of the portfolio we've been building come to market. Q3 brings new product announcements and more segment expansion.

I'm proud of how far this team has come, and I can't wait for these products to hit the market. If you're attending Printing United in September, come by. I think you'll leave with a very different view of where Xerox production is headed.

With that, Chuck, over to you.

Chuck Butler

Chief Financial Officer, Xerox Holdings Corp.

Thanks, Louie. Good morning, everyone. Last quarter, Louie and I laid out three priorities: stabilize revenue; increase profitability; reduce leverage. Let me walk through Q2 against that same frame. On revenue, pro forma declines modestly improved versus Q1 when adjusting for the currency and supplies dynamics Louie described, and we are raising full-year guidance. On profitability, adjusted operating margin expanded year-over-year for the second consecutive quarter, and we are raising full-year adjusted operating income guidance as well. On leverage, we reduced total debt by $223 million in the quarter, and we now expect to exit the year below 5 times gross leverage and 4 times net leverage based on the midpoint of guidance. Two quarters in, we are making progress.

Our Q2 results and guidance reflect the impact of the Supreme Court ruling on IEEPA tariffs. There are a few moving pieces here, so let me walk through the mechanics. First, the P&L. We recognized $105 million of tariff receivables in gross profit this quarter. To be clear about what this represents, we have been paying these tariffs all along and that cost is embedded in our results over the past 12 months. The ruling allows us to recover it. This is not a windfall on top of clean results. It is the recovery of a real cost we already absorbed.

Second, the cash. Rather than wait for the government to define and process the claims, we sold the receivable to a third-party buyer for $80 million in cash. The $25 million difference is the buyer's discount recorded as OID. We put a meaningful portion of that cash to work immediately, repurchasing our debt at a discount.

Third, the classification. Because the claims had not yet been processed at quarter end, the $80 million is recorded in financing rather than operating cash flow, which means it provided no benefit to Q2 reported free cash flow. Once the claims are processed, it moves to operating. The bottom line, the $80 million is real. The cash has been received and the only thing that changes with timing is the classification, not the economics.

Q2 revenue of $1.92 billion increased 22% year-over-year on a reported basis and 21% in constant currency, reflecting Lexmark's contribution. On a pro forma basis, revenue declined nearly 7% year-over-year compared to a 4% decline in Q1, which benefited from 230 basis points of higher currency tailwinds and approximately 100 basis points from the pull forward of post-sales revenue, primarily in supplies.

Turning to profitability. Adjusted gross margin was 36.4%, up 710 basis points year-over-year, driven by Lexmark's contribution, recognition of IEEPA tariff receivables, and transformation benefits, partially offset by higher incentive compensation expense, increased product cost, mix, and declines in the high-margin finance-related fees, largely a result of our forward-flow arrangements. Adjusted operating margin was 10.6%, up 690 basis points year-over-year, driven by higher gross margins and integration synergies, partially offset by higher SAG expense. Excluding the tariff receivables benefit, operating margins were 5.1%, up 140 basis points year-over-year.

Nonfinancing interest expense was $100 million, up $45 million year-over-year, due mainly to higher net interest expense associated with the Lexmark acquisition, and the TPG JV financing. GAAP EPS was $0.07, up $0.94 year-over-year. And adjusted EPS was $0.38, $1.02 higher than a year ago, primarily due to higher revenue and profit and a lower tax rate, partially offset by higher interest expense.

Our non-GAAP adjusted tax rate remains volatile because we carry a valuation allowance against certain deferred tax assets. The practical effect is that the pre-tax losses in the US and UK, along with disallowed interest expense, do not generate a corresponding tax benefit, while we continue to record the tax expense on profits in certain jurisdictions. It is a GAAP consequence of where we sit today, not a reflection of the operating performance or cash. As our profitability improves, we expect the tax rate to normalize and converge with our cash taxes.

Let me review segment results. Within Print & Other, Q2 equipment revenue was $387 million, up 15% versus the same period last year. On a pro forma basis, equipment revenue declined 13%, a step back from last quarter's 2% pro forma decline due to softer mid-range performance, lower OEM sales, and increased backlog due to higher than anticipated demand for Entry. We believe the larger backlog exiting Q2 as well as an increasing demand bodes well for future quarters as it converts to revenue.

Print & Other post-sale revenue was $1.35 billion, up 31% as reported, and up 30% in constant currency. On a pro forma basis, Print post-sale revenue declined 4%, mainly due to lower service rental and other revenue, lower outsourcing, and lower financing income. Print & Other adjusted gross margin was 38.4%, up 720 basis points, driven by Lexmark's contribution, tariff receivable benefits, and transformation savings. These factors were partially offset by higher product cost, mix, and lower managed print volumes. Print & Other segment margin was 12.7%, up 790 basis points, driven by higher gross margin plus integration savings. Excluding tariff receivable benefits, Print segment margins were up 180 basis points year-over-year.

Turning to IT Solutions. Gross billings grew 4% year-over-year in the quarter and 11% year-to-date, while GAAP revenue fell 9% in the quarter. The total pipeline remained strong and we expect a better finish to the year. As we noted last quarter, a growing share of what we sell, third-party service contracts, SaaS and certain fulfillment contracts is reported on a net basis, reflecting our role as agent, rather than principal. We anticipate the year-over-year trends in gross billings and GAAP revenue to become more aligned over the next few quarters.

On profitability, gross profit was $35 million, reflecting a margin of 18%, up 160 basis points year-over-year, driven by changes in revenue mix and synergies partially offset by higher memory cost. Segment profit was $7 million, reflecting a profit margin of 3.7%, down 110 basis points year-over-year as investments in the sales organization weighed on profitability.

Now, moving to our cash flow and capital structure. For the quarter, operating cash was $37 million compared to a use of $11 million last year, reflecting higher net income and smaller working capital use than a year ago, partially offset by lower proceeds from finance assets. Investing activity was a $9 million use of cash compared to a use of $18 million in the prior year.

In the quarter, capital expenditures of $26 million were partially offset by $19 million from the finalization of the Lexmark working capital adjustment. Financing activity resulted in $114 million use of cash, reflecting the paydown of the 13% senior bridge notes due in June and the partial payment of the 2028 senior unsecured notes and second lien notes. This was partially offset by proceeds from the sale of tariff receivables.

Free cash flow was $11 million for the quarter, up $41 million year-over-year. And to remind everyone, the back half of the year is where the bulk of our free cash flow is generated. We expect improvements in adjusted operating income, working capital dynamics, and additional proceeds from finance receivables to deliver substantial free cash flow in the second half of the year.

We ended Q2 with $552 million of cash, cash equivalents and restricted cash, including $57 million of restricted cash, and total debt of $4.2 billion, down $223 million sequentially. Approximately $1.3 billion of the outstanding debt supports our finance assets with remaining core debt of $2.9 billion attributable to the nonfinancing business. Gross and net leverage were 5.9 times and 5.1 times, trailing 12 months EBITDA, respectively, down from 7 times and 6 times last quarter. Our capital allocation priority remains debt reduction, driven by EBITDA growth and continued debt paydown.

During the quarter, we paid down $125 million of 13% senior bridge notes at maturity. In addition, we repurchased $99 million of face value of our outstanding debt, inclusive of $93 million of the 2028 senior unsecured notes and $6 million of our second lien notes. We spent $57 million to repurchase this debt in the open market, capturing $42 million of discount. To-date, debt reduction from the warrant issuance has been minimal.

During the first half of the year, we reduced our 2028 maturity wall by nearly $200 million. The maturity ladder has been de-risked in the near term. We have less than $180 million of scheduled debt maturities between now and December 2027. We continue to have multiple tools to address it, organic cash flow, continued open-market repurchases, the warrant mechanism, and capacity within our existing capital structure. We will continue to be opportunistic when market conditions support it.

Now, for guidance. We are taking up our Lexmark synergy targets to at least $350 million, higher than our previous forecast of at least $300 million, of which we expect approximately half of the benefit to be realized in 2026 with the remainder in 2027 and 2028. We continue to look for new ways to drive efficiency and increase profitability in the business.

For 2026, we now expect revenue of approximately $7.6 billion compared to greater than $7.5 billion previously. The higher outlook reflects improved expectations for Print & Other due to an improved equipment outlook for second half and better supplies outlook. Our revenue guidance implies a 4% revenue decline in the back half of the year.

We expect Q3 revenue trends to be stronger than Q2 and Q4 to be stronger than Q3 on a year-over-year basis. Adjusted operating income is now expected in the range of $555 million to $605 million, up $105 million from the prior outlook, primarily because of the recognition of IEEPA tariff receivables in Q2. Even with this, we continue to incur material ongoing tariff expenses.

We continue to expect free cash flow of approximately $250 million. Within this forecast is the inclusion of proceeds for the sale of tariff receivables to a third party, which we expect to be reclassified into operating cash flow. Also benefiting free cash flow relative to our initial guidance are lower expected CapEx and taxes. This is offset by higher in-year restructuring charges as a result of our increased synergy target, higher nonfinancing interest due to the TPG JV, and lower than previously expected working capital.

Specifically, regarding working capital, our credit profile has created some friction with partners that has modestly impacted working capital efficiency. We are actively addressing this and expect these constraints to ease over time as we continue to reduce leverage. I do want to be transparent about one risk factor. While we are generating an incremental benefit from higher revenue and improved synergy, this has been more than offset by modestly higher memory prices since our last update and oil prices that have moved meaningfully higher in recent weeks. Our prior outlook assumed oil prices would normalize by midyear. If current levels persist or memory prices move higher still, this could present modest risk to our updated profit and cash outlook. We will monitor this closely and update you accordingly.

That said, based on our implied guidance, by year-end 2026, we now expect gross and net leverage to drop by over 2 turns from Q1 to under 5 times and 4 times trailing 12 months EBITDA, respectively. The balance sheet is getting stronger, the business is improving, and we are moving in the right direction.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment for questions. And our first question comes from Alek Valero with Loop Capital. You may proceed.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Yeah. Hey, guys. Thank you for taking my question and congrats on the quarter. My question is more so on your free cash flow guide. So, I know your April free cash flow guide was $250 million and it's $250 million again, but now, you're receiving the $80 million in the tariff receivable. Can you just kind of like walk us through the offsets for that, and why your free cash flow isn't higher or guided higher?

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.

A

Yeah, sure. Thanks for the question, Alex (sic) [Alek]. Good to hear you. Thanks for joining the call. Yeah, essentially what occurred, we will add $80 million of the tariffs in the back half of the year into our free cash flow, call it, $250 million. That $80 million was roughly offset by some additional restructuring costs; some working capital drags, which kind of roughly offset that $80 million and stay in the same ballpark of range.

Alek Valero
Analyst, Loop Capital Markets LLC

Q

Got it. Got it. That's super clear. Just changing gears up a bit. On IT Solutions...

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.

A

Oh, sorry, Alex (sic) [Alek]. I did forget one point. There was a little additional interest related to the TPG JV in there as well, so those three items.

Alek Valero
Analyst, Loop Capital Markets LLC
Q

Okay, okay. Those were the offsets.

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.
A

Yeah, that's right.

Alek Valero
Analyst, Loop Capital Markets LLC
Q

Got it. No, no. Thank you for that. Also, just on IT Solutions, maybe if you could speak to the kind of demand that you're seeing there. Are you seeing any AI-related infrastructure demand, or is that not your customer set yet?

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

Yeah. I would say on AI, we hear a few things consistently from our IT Solutions customers. One is, there is an expansion I think in certain parts of the IT budget that we serve. So, we do see clients refreshing endpoints for AI PCs and modernizing infrastructure to carry AI workloads, investing in data center capacity and security. Those are tailwinds.

But it definitely pushes on other parts of their budget that we're less exposed to. It gets them rethinking how they manage information. And so, there's a lot of spend being absorbed in the IT Solutions space by just the large data center build-outs. And for us, that's not really our client set. We've got others and other ways to get exposure to that spend. So, it's something that cuts both ways for us.

Alek Valero
Analyst, Loop Capital Markets LLC
Q

Got it. No, that's interesting. Thank you very much.

Operator: Thank you. Our next question comes from Joseph Cardoso with JPMorgan. You may proceed.

Marc Vitenzon
Analyst, JPMorgan Securities LLC
Q

Hello. Good morning. This is Marc on for Joe Cardoso. Wanted to just ask about the gross margin dynamics. Even if I normalize for the IEEPA refund, seems like gross margins still improved 70 basis points quarter-on-quarter. If you could just disaggregate some of the dynamics at play there, right? Like, how much of that comes from in-housing, manufacturing, and other drivers; and then, I guess, how much is being taken out, right, from input cost inflation?

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.
A

Yeah. I think you're asking specifically about a quarter-to-quarter bridge on gross margin?

Marc Vitenzon
Analyst, JPMorgan Securities LLC
Q

Yes, that's right.

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.

A

Yeah, that's right. Now, we continue to see improvement for several reasons. One of them, you're right, you normalize for the tariff receivable benefit. We're going to get additional transformation benefits, which will come largely from the synergies related to the acquisitions. Lexmark continues to play a high role in the improvement year-over-year. But even depending on the mix of revenue sequentially, it has a positive impact. We continue to see some other benefits around the pricing of our products.

Now, there are a couple of headwinds that offset that. One would be you, look at the revenue mix between your ESR and your post-sales, which I believe were more driven toward the post-sales in the second quarter. And then, you have some UMC cost increases primarily through our A3 product that we externally source as we're still transitioning to the internally manufactured product.

Marc Vitenzon
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you. And then, maybe just to follow up, from a demand standpoint, seems like there are a few positive demand indicators that you saw during the course of the quarter, right, such as page volumes improving, supply usage ticking up, and seems like you're still pretty confident in the back half equipment recovery. Could you just walk me through some of the drivers and what you're seeing from a demand standpoint? Thank you.

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

A

Yeah. Thanks, Marc. I'd say, that's largely accurate. Demand is fairly stable for print. And like I said on the call, our pipeline is running ahead of last year. We see real strength in the entry level. Demand actually outran supply in the quarter. We think that will continue into the second half of the year. The honest soft spot for us is the midrange, it's A3. And we're not really counting on that segment to bounce back. We're actually building products and a cost structure that win in the environment as it is. So, that's really what we're focused on today.

Marc Vitenzon
Analyst, JPMorgan Securities LLC

Q

Awesome. Thank you.

Operator: Thank you. Our next question comes from Asiya Merchant with Citigroup. You may proceed.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Okay. Thank you for taking my call here. Just you talked a little bit about demand here in the back half for IT Solutions as well, as you overcome some of the friction from the higher sales force. What, if anything, do you think could be a risk there that there was a little bit of more of pull forward that happened in the first half that could negatively perhaps affect how you're thinking about your back half in terms of revenues from IT Solutions and margins as well within that segment?

And if I can, one more on free cash flow. I understand the guide for this year hasn't changed. As we look into next year, can you give us some guideposts on how to think about it, given that sale of receivables is likely to come down materially? Thank you.

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

A

Yeah. So, I'll take the IT Solutions question, and then I'll kick it over to Chuck to tackle the free cash flow one. On IT Solutions, I would say, look, our clients are still investing. If anything, I think we saw actually more things actually move out from Q2 into Q3. So, a little bit of slippage that we would expect things being pulled forward, which was a little bit different than in Q1.

But like I said, our clients are still investing, endpoint refreshes, upgrades, modernizing infrastructure. Those demand drivers are still intact and they're building. And so, even though our Q2 bookings were softer on timing and a little bit of a tougher comp, what we see in the second half of the year in terms of execution and conversion by the sales force that we've been rebuilding and investing in, as well as just the technical sales engagements, we're pretty confident in the second half of the year for this business. We've got new products landing, backlog converting, sales force hitting its stride. But we do think the step-up will be more heavily weighted towards Q4 than Q3.

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.

A

Yeah. Thanks, Louie. On the free cash flow, of course, we're not guiding what's going to happen next year. But if you think kind of broad topics for how you would envision it flowing through, you're right, the forward-flow receivables will decline year-over-year. That'll be offset by additional synergy savings, driving increased profitability as we continue to stabilize the revenue and expand margins in the business.

And we'll have lower interest as we continue to retire debt. We mentioned we retired $223 million of debt in the second quarter and continue to decrease leverage. And all those benefits will flow through to next year as well. So, you'll have a headwind with the forward-flow receivables, and you'll have some tailwinds around expanding margins, lower interest expense and less restructuring cost.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Thank you.

Chuck Butler
Chief Financial Officer, Xerox Holdings Corp.

A

Absolutely.

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

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

Thank you. One year after the Lexmark acquisition, the results are tracking to strategy. We raised guidance, reduced leverage, and made real progress on synergies, while absorbing headwinds we couldn't fully see coming six months ago. There's still work to do, and we're clear-eyed about what's ahead. But the priorities are right, the team is delivering, and we're moving in the right direction.

In the end, this business runs on trust. Our clients trust us to help them run more efficiently, more securely and at scale. And that trust is what earns the renewals and the annuity that fund the plan. Investors extend us a version of the same trust; that we'll do what we say. And we earn both forms of trust the same way; by delivering on the plan over time and by being candid about where we stand every quarter. We know the hurdles in front of us and we intend to clear them.

Thank you for your time this morning. We look forward to updating you next quarter.

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