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XRX - Xerox Corp 2016 Investor Meeting

EVENT DATE/TIME: DECEMBER 07, 2016 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Xerox Corporation 2016 Investor Conference. This conference will be focused on the company that Xerox Corporation will become, following the spinoff of its Business Process Outsourcing business into a separate publicly traded company, which is expected to occur at the end of this year. This conference is hosted by Jeff Jacobson, who will become the Chief Executive Officer of the post-separation Xerox. He is joined by Leslie Varon, Xerox's current Chief Financial Officer; Mike Feldman, who will become President, North America of the post-separation Xerox; and Kevin Warren, who will become Chief Commercial Officer of the post-separation Xerox.

During this conference, Xerox executives may make comments that contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, that by their nature, address matters that are in the future and are uncertain. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in Xerox's most recent Annual Report on Form 10-K and its subsequent quarterly reports on Form 10-Q filed with the SEC, as well as Conduent Incorporated's Form 10 Registration Statement, as amended. We do not intend to update these forward-looking statements as a result of new information, or future events, or developments, except as required by law.

(Video Playing)

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Good morning and welcome. On January 1, I will become the CEO of Xerox, and I'm honored to be here and represent the team of talented employees, which has an unrelenting focus on helping our customers innovate how they communicate and work to drive greater productivity. It's what we've been doing since the Company was founded, delivering new technologies and solutions to transform how people work. We are a leader in automating workflows, managing content and communications and building secure solutions. We're creating breakthroughs in the fields of imaging and data analytics, and we're dedicated to helping our customers become modern digital enterprises. I'm excited about the opportunity for our Company. And today we will lay out for you the vision and strategy for the new Xerox.

We have two objectives this morning. First, the team and I will share Xerox's perspective on the current market environment, the opportunities it creates for us and why we are uniquely positioned to win. And second, we will discuss our strategy and plans for increasing value for our shareholders and for our customers. We have a lot to cover, so let's get started.

On January 1, following the spinoff of Xerox's Business Process Outsourcing business, we will be a new company. We will be a hard-charging, high performing team with a mix of our strongest current operators, blended with highly skilled external talent. Together, we will be singularly focused on delivering on our commitments.

As you think about the new Xerox, there are four things I'd like you to keep in mind. First, we have a strong attractive business model and operating system. We participate in an $85 billion market. We are in a leadership position, as we have been the equipment revenue market share leader for 27 consecutive quarters. Our business is 75% annuity based, which provides great stability and we have high renewal rates, which is representative of our strong longstanding relationships with our customers.

Second, we have been and we will continue to be relentless on cost and productivity initiatives and we are very good at operating this business. We have driven over $300 million to $350 million of productivity each year for the past three years. With the strategic transformation program, we are driving for even greater productivity, with plans to deliver an annual average of $500 million of cost savings from 2016 to 2018. We are disciplined in our approach and our ability to deliver productivity will mitigate the impact of revenue declines until we change our revenue trajectory. Our productivity efforts will provide a very solid financial foundation to support strong cash generation, margin expansion and the ability to reinvest in the business.

Third, we play in a market with growth opportunities, ranging from low-single digit to double digits, and we have a concrete plan to capture the opportunities in our strategic growth areas. These areas include Document Outsourcing, specifically managed print services in the small and medium business, or SMB market. Entry products, where pages are moving from single-function A4 size printers, to higher value A4 multifunction printers, where we are better positioned, and the production cut-sheet color and emerging production inkjet markets. To pursue these opportunities, we are expanding our channels and realigning our go-to-market model to increase our reach and strengthen the relationships with our customers. And we're building on the successful product launches this year to expand our portfolio with the largest product launch in the history of Xerox. We'll share more about our plans throughout the discussion this morning.

Fourth, we are a company that continues to focus on delivering attractive shareholder returns. We are committed to an investment-grade rating profile. And our strong free cash flow supports attractive dividend and shareholder returns.

We will come out of the gate in January as a new company with approximately $11 billion in revenues. We're proud of our Document Technology foundation, which is 70% of our revenue and includes a broad portfolio of printing and communication solutions that help our customers connect analog and digital processes. Document Outsourcing is 30% of our revenue and growing. The market continues to move toward management services, and we are well positioned in the business. Additionally, our base technology business provides a great opportunity for add-on services, or to migrate customers to higher value offerings. We participate in all markets, large enterprises and SMBs, governments and graphic communications providers.

Our revenue stream is comprised of 75% annuity and our geographic footprint generates 41% of our revenue outside of the United States. We have solutions for customers of every size and in virtually every vertical. When you couple the broadest portfolio in the industry with our proven delivery capabilities and an energized team who will be focused on driving strong results, it is the formula for a winning solution.

We have a leading position in many large markets and in each of these markets, we have opportunities. We will focus on maintaining our leadership positions, while increasing participation in the growth areas of the $85 billion market in which we operate. We are the leader in half of the $47 billion of the mature markets. And we do not really play in the other half, which is the single-function printer market, which is in significant decline. In Document Outsourcing, we are number one in large enterprise managed and centralized print services. And there is a huge opportunity to grow faster in SMB managed print services, which is a $7 billion market, growing at 7%. And in workflow automation, a $3 billion market growing at 13%. We will defend and expand our leading share in the large enterprise segment, while aggressively pursuing the higher growth opportunities.

Similarly, in the office, which we are referring to as the connected office, we will build on our Number 1 position in mid-range products, known as A3 multifunction printers, and our ecosystem of ConnectKey applications to capture the opportunity in A4 multifunction printers, a $12 billion market, growing at 3%. And in graphic communications and high-end production, we will defend our position in mono and color production cut-sheet. We will also pursue the $5 billion production color market, which is growing at 5%, and within that space is production inkjet and digital packaging, which are both growing at double-digits.

We launched new products in 2016 and we'll continue to innovate both products and workflow solutions to help move these markets. Our efforts will be supported by the largest product launch in our Company's history, which begins in 2017, and a targeted approach to increase our market reach, especially in the very large $20 billion multibrand reseller space, which historically has been a significantly underpenetrated area for us.

I'd like to shift gears and talk about margins. Through our intense focus and productivity initiatives, we have a demonstrated track record of delivering strong operating margins. In fact, despite difficult market conditions and headwinds over the past couple of years, our margin performance has shown significant improvement. We've delivered approximately 230 basis points of margin expansion over the last five years and in each of the past three years, we have driven productivity, averaging $300 million to $350 million. In a currency neutral year, this essentially enabled us to offset market-driven revenue declines. This is something we know how to do and we are taking our efforts to a higher level with our three-year strategic transformation program.

As you can see, the program is not only about cost, but true transformational productivity in areas such as delivery, remote connectivity, sales productivity, pricing algorithms, design efficiency and supply chain optimization. We expect to generate at least $1.5 billion in gross productivity from 2016 through 2018, or approximately an additional $150 million per year compared to our recent performance. To deliver this plan, we have implemented a rigorous approach, which we have embedded within our operating system. We are tracking results and progress closely with a no-excuses mindset to drive accountability among the teams. I'm personally involved, as is the full executive team. The entire organization is engaged and focused on delivering on their commitments.

We are well on track to achieve our three-year goal and, in fact, I believe we can do even better as we have not yet fully filled the 2018 funnel. At this point, we have already achieved over 90% of our gross productivity goal for 2016, which will give us a fast start in 2017. We will continue to deliver a strong margin, however, the benefit to our profit will begin to show more in 2018, as currency headwinds, driven primarily by the yen, offset part of the productivity benefits in 2017.

As I mentioned, the program takes our traditional ongoing productivity efforts to a new level. We will use the additional savings to offset topline erosion until our revenue trajectory begins to turn in 2018, to drive margin expansion and to invest in the growth areas of the market. Leslie Varon will take you through more of the details of the program and how it's working when she takes the podium.

While we have been placing a great deal of emphasis on simplification, transformation and driving a significantly more competitive cost structure, we are keenly focused on improving our revenue trajectory. There have been several major factors driving our revenue pressures. We are the leader in some segments of the market, which are in decline. We have a large base of business in the A3 space, which is a $23 billion market, declining mid-single digits, as well as the production mono market, which is a $1 billion market, declining over 10%. We have lack of penetration in some of the growth channels, such as the SMB market. SMBs are largely served by multibrand resellers, a $20 billion channel we have not actively participated in. Our share in this space is low single-digits. Kevin Warren and Mike Feldman will address our countermeasures to these revenue pressures, but I will summarize them as follows.

First, we will leverage new products with leading functionality and significantly improve total cost of ownership to grow share in both the A4 market, as well as the SMB managed print services market, markets growing 3% and 7% respectively. We will introduce 29 new products throughout 2017 and 2018 in the A3 and A4 space.

Second, we are placing a significant emphasis on the multi-brand reseller market. We are using the product launch, as well as our leadership and expertise in the managed print services space to demonstrate the significant value proposition we bring to this very important part of our market.

Third, in the graphic communications and high-end production market, we will capitalize on the new products we are rolling out in 2016 to pursue growth opportunities, especially in the production inkjet market, which is growing at 10%. Additionally, resellers who have the capability of selling production products may now carry a full line of Xerox office, production and managed print service offerings for their customers.

Here's a graphical depiction of the impact of our strategy, moving towards the inflection point of the growth curve. Today, about 37% of our revenue is generated from the growing areas, as we are overweighted in the mature markets. We are at 63% mature market versus the overall market, which is about 55% matured. With our focus and initiatives to gain share in the growing segments of the market, specifically in managed print and the SMB space; increased channel coverage through multibrand resellers; share gains in A4, as well as the connected office systems, driven by the expanded feet on the street and our large product launch; and growing in the digital color production segment, in five years, we expect to have 54% of our revenue generated from these growth areas of the market.

One reason for our confidence and our ability to grow in the SMB market and expand our reach is the success we've had with Global Imaging Systems or GIS. GIS is essentially a Xerox-owned collection of multi-branded resellers within the United States. They sell a full line of office and production systems, software and supplies, as well as workflow solutions. Xerox acquired GIS in May 2007 and during the last decade, the business has doubled in size with approximately two-thirds of the growth coming from M&A. It has been a very successful model for us and consistently meets or surpasses business case expectations. The GIS model is one we envision continuing to expand in the US, as well as in our international operations.

We understand and we know how to operate this business. We're leaders in the market and we have a focused set of strategies to drive performance. This is how it translates into our target financial model. We are committed to delivering an improving revenue trajectory, where we will outperform the market through our intensified focus on increasing participation in underpenetrated areas and growing markets. We will deliver robust operating margins, expected to be in the range of 12.5% to 14.5%. We know how to execute on this front and our strategic transformation provides incremental support. We will maintain a strong balance sheet and we'll manage our debt profile to maintain our investment grade rating. We will deliver an attractive dividend, supported by our healthy annuity driven cash flow that will provide a solid return to our shareholders and which will grow over time with earnings. And finally, with the remainder of our cash flow, we will deploy a balanced, returns-oriented capital allocation policy that will include targeted M&A and share repurchases.

In summary, our commitment is to work every day on behalf of our shareholders to deliver attractive, increasing returns. In a moment, Kevin Warren, our Chief Commercial Officer, will provide more depth on our strategy and how we're capitalizing on our innovation capabilities and the ability to drive growth in the key market segments and through channel partners. Mike Feldman, President of our North America Operations will take us through our plans to capture growth in the Document Outsourcing markets. Leslie Varon, our CFO will cover the financial model for the new Xerox, provide more color on the strategic transformation program and our capital allocation plans. As many of you may have seen, last week, we announced that Bill Osbourn will be our CFO once the separation is complete. We're pleased to have Bill with us here today, his third day with the Company. Bill, would you please stand?

Bill and Leslie will be working closely together during the next few months to ensure a smooth transition of responsibilities before Leslie retires. In addition to Bill and the presenters, a number of other senior leaders are here today. Please hold your applause to the end and I'll introduce them one at a time. Please stand when I call your name. Herve Tessler, President of International Operations; Steve Hoover, Chief Technology Officer; Ted Dezvane, Vice President of Strategy; Xavier Heiss, Controller; Robert Birkenholz, Treasurer; Ann Pettrone, Director of Corporate Finance; Doug Marshall, Associate General Counsel & Assistant Secretary; Toni Clayton-Hine, Senior Vice President of Marketing; Renee Heiser, Vice President of Communications; and Jennifer Horsley, Vice President of Investor Relations.

It's now my pleasure to ask Kevin Warren, our Chief Commercial Officer, to share with you the plans to strengthen our portfolio and capture growth opportunities. Kevin?

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

Thanks, Jeff. Good morning. Next, we're going to talk about how our portfolio is trying to drive results. I will take you through the details and demonstrate how we will create value across the portfolio to expand our routes to market, improve the revenue trajectory and expand our margins.

Now, these are the four planks of our strategy. They build off each other and connect to bring the focus and results needed to grow. I'll go through the details of what specifically drives these four planks, but first, allow me to hit the highlights.

We'll hold on to our top spot in the market share in A3 and grow in A4. We're in pursuit of growth hotspots. We will have approximately 50% of our revenue coming from growth markets in four years. The new Xerox will leverage innovation squarely in the technology space to improve our competitiveness and create new markets. And the strategic transformation underway allows for investments in growth areas, while delivering on our margin commitments. Now, let's get started with the changing dynamics in the workplace and how our portfolio will address them.

We're thinking ahead to new ways of working that span the needs of every employee, IT department and channel partner to create a connected, intelligent workplace, a workplace where technology is accessible anytime, anywhere, for collaboration within a large global enterprise, or on the flexible schedule of a small to medium size business, where data can be accessed by everyone who needs it, but managed in a way that protects from internal and external threats and breaches. Everything has app-like ease of use. Even complex processes can be set in motion with a single touch or action, just like on a smartphone or a tablet. New workflow applications can be personalized to meet the individual and industry-specific needs of each business, to ensure productivity and adoption. Now, this vision, where the physical device has to add new intelligence to perform the way workers want it to will become a reality for our Xerox portfolio across all our offerings and I'm thrilled to say that we will be making Xerox history in 2017 with our largest ever product launch.

Now let's move on to talk about how our expanded portfolio was set up to differentiate us and meet the needs of the intelligent workplace I've just described. Our 2017 launch means we're playing with an office portfolio that has been totally refreshed. The ConnectKey ecosystem meets the customer expectations we just talked about with software that supports mobile access, personal devices and cloud applications. We've upgraded the user experience to adapt to the way people are working with a tablet like interface and the ability to pinch and zoom, create app-based workflows and customized preferences. ConnectKey's unified platform means the products are ready for (technical difficulty) SMB segment. And finally, this broader line appeals to the channel as a one-stop shop for all their needs and the ease of working with a consistent platform allows them to spend more time meeting the unique needs of their SMB customers.

Now, let's turn to how we'll reach more customers with this strengthened portfolio. Since our inception, Xerox has been well known for its strong direct sales force. Our large enterprise team, our mono branded agents and concessionaires and our Global Imaging Systems network are world-class and come together to empower our achievement as the ESR share leader for 27 consecutive quarters.

Our plan now is to expand beyond those direct routes to market, to capture our part of the 75% of the SMB market serviced by indirect channels. This is a critical focus area for us and we're making some important changes to go after it aggressively. Our new portfolio is certainly a key enabler of that. Here is a look at the threshold of dealers and our opportunity, by example, in the US. Our plan is to target the untapped dealer pool, 500 dealers, including 200 with revenues over $10 million; to ratchet up recruitment and activation of partners that are the right fit and growth potential. The following are the areas of extreme importance: First, we're bringing a broader set of products and solutions to the table, giving them access to the full A3 line and significantly expanding our offerings in A4. Second, we are applying our experience to help them capture new growth opportunities, like MPS. Xerox is the only OEM provider capable of supporting channel partners with integrated tools, technology and service delivery processes. Third, we're making it easier to work with us by investing in our program infrastructure and expanding support for partner marketing, training and enablement. And, finally, we're also enlisting top talent and an experienced network of support to more closely manage our partner relationships.

Now, let's look at the details of the market. We will increase our participation in the $51 billion small and medium-size business market, where we are vastly underrepresented. Our estimate is that $20 billion of this market is served by independent multibrand dealers. The non-services segment is declining, leaving three growth segments; Basic Print Services, Managed Print Services and A4. Now you've already heard how our new product portfolio appeals to growth in these areas. But that's just part of the story. We will nurture the channel partners who are the root to SMB. In addition to the recruitment and activation strategy I just talked about, we're making some other investments to accelerate our progress, including continuing our successful acquisition strategy through global imaging in the US and via our European channel. Investing in talent, infrastructure and programs become a preferred partner to expand our channel capacity. Launching SMB focused demand generation activities to promote our new portfolio and target the more than 50% of SMB customers who have not yet adopted an MPS solution. Xerox is poised to help partners capture new growth opportunities using tools from our market-leading MPS suite.

In summary, we are critically focused on the growth opportunity in the multi-brand channel serving the SMB market. We have a sound strategy for targeted investments and action.

Now let's go to a short video from two of our partners. They have some good feedback on how Xerox is helping them grow their business. Roll the video, please.

(Video Playing)

Now, let's examine our growth strategy in graphic communications and high-end production color. Xerox enjoys a strong leadership position in this attractive and growing market. The migration of offset to digital is a huge source of long-term growth. Only 3% of the 50 trillion pages are digital and we're primed to benefit from the conversion. Production inkjet technology will help us increase the rate of conversion and is a key enabler for us to access the rapidly growing Packaging segment of the market. We'll increase our advantage with five new color cut sheet launches in 2017, building on this year's successful launch of the Brenva HD production inkjet press. It will capture more share of the growing $1.7 billion Color Continuous Feed inkjet market, as we build on the momentum of the Rialto and Trivor launches.

We're also well positioned to seize new opportunities in the digital packaging market, which requires integration of best-in-class digital technologies, where we're the leader, and sophisticated digital workflow management, which is another area we're known for. We also have the support and enthusiasm of the industry and our customers, as evidenced by our strong performance in June at drupa 2016, which is the largest printing equipment exhibition in the world. We've exceeded our targets for signed contracts and Letters of Intent since the show and industry influencers took notice of, in their words, a reinvigorated Xerox and a new era of industry leadership to look forward to.

Now, we'll move on to talk about how innovation continues to drive our leading position across the markets we serve. Innovation has always been a core part of the Xerox DNA. When combined with Fuji Xerox, we have approximately $1 billion invested in RD&E spending. And we're one of the top 20 most patented companies in the world with more than 1,500 granted annually. We have world-class talent in our innovation centers, headlined by the famed Palo Alto Research Center or PARC. Today patent filings are not only in core print technology, but over 40% are in software solutions and analytics, because we know, through our MPS offerings and ConnectKey, the ability to integrate software and hardware to solve customers' problems is at the leading edge of innovation in today's world.

In addition to leveraging innovation to improve our near-term offering portfolio, we are also focused on opportunities that haven't yet emerged and have less to do with the printed page. In the graphic communications printing market, there are exciting growth opportunities beyond document printing. You see our initiatives into printing packaging cartons with iGen and into direct to object printing. These initiatives capture the idea of printing own things and beyond that the ability to add intelligence. We have some initial investments in printed electronics that laid the foundation for smart packaging. We'll start to embed sensors into the packages and products to respond to their environment to help consumers make better decisions and to help brand owners find new ways to interact with consumers.

In the office, we're helping people manage document intensive workflows in the digital workplace, and we deliver some of these capabilities today through workflow automation. For tomorrow, we're focused on improving that by automating the process of workflow discovery, using predictive analytics to tap into the volumes of data they have.

Our future innovations are focused on ways to help workers interact with information using computers, almost as colleagues per se. So think of an intelligent assistant like Siri or Google Now. In Augmented Reality, which is an emerging technology, where you can take a picture of the dashboard indicators in your car for example and digitally access the information you need, instead of searching through the manual in the glove box. These are crucial areas as we focus on bringing opportunities to the market today and investing for and laying the groundwork for the future. Let's roll the video with an example of our innovation at work.

(Video Playing)

That video was a great example of our goals for reigniting innovation and connecting with customers and accelerating the pace at which we bring ideas to market. That concept was conceived just 18 months ago, when we were talking to retailers about the value of customization in the store. Our Inkjet intellectual property can be used in very different ways beyond document printing.

So, to summarize, we retain an attractive position in large and mature markets and we will continue to focus on maintaining that leadership. We'll build new strength via our expanded portfolio and partner network to tackle growth areas in A4 MFPs, the multi-brand dealer channel, digital color production and document outsourcing. We're bringing intelligent workflows to the office today in customized ways and we're developing them for spaces that don't exist today. We'll leverage our strengths and experience, but execute in new and targeted ways to attack growth markets and leverage additional cost productivity to invest.

Now it's my pleasure to introduce my colleague, Mike Feldman, President of Xerox North America, to walk you through our opportunity and position as we expand our market leadership in Document Outsourcing. Mike?

Mike Feldman - *Xerox Corporation - Corporate VP & President, Large Enterprise Operations, Xerox Technology*

Good morning, everyone. Thank you very much, Kevin. So, as Jeff said earlier, the Document Outsourcing market is sized at $21 billion and growing in an annual rate of 5%. This is a great business for Xerox. We are the market share leader and every analyst who studies this market has placed Xerox in the far-most upper right of their quadrants, and (inaudible) such as Xerox has the best ability to execute today, and also has the best strategy and vision for the future. One of the things that makes our offerings so compelling is that we have the broadest portfolio in the industry, which allows us to help our clients with virtually all of their document management needs across the workplace, with their business processes, and also how they communicate and market to their customers. And we deliver this through our globally consistent, three stage, next generation managed print services. Stage one is called assess and optimize, and it is literally where we assess and optimize the printing infrastructure. Stage two is called secure and integrate, and it's where we align to the IT department and deliver security and mobility solutions. And stage three is called automate and simplify, it's where we automate paper-based processes at the line of business level in our accounts. What's important here is that this is not a won and done approach. We offer a continuous improvement to our clients through the life of the contract, so that they always stay optimized, secure and automated.

Let me now share with you a more in-depth look at what makes up our very comprehensive Document Outsourcing portfolio. It starts with the technology layer. Hardware and/or software is almost always part of a Document Outsourcing deal. We offer a broad set of office and production solutions. Kevin spoke a lot about the hardware technology already, so there's two points I would make here. One is multi-vendor support and two, is software solutions. On multi-vendor support, we support both Xerox and non-Xerox hardware, because we recognize that our clients operate in a multi-vendor environment, then they don't want to have a rip and replace strategy. We fully support and service most vendors' printers and we offer Xerox toner replacement cartridge for many printer brands at great margins for us and significantly reduced pricing for the customer. Multi-vendor support is a differentiator for Xerox.

The second point is that we have a rich set of software solutions, which really add a lot of value to our offerings and further differentiate Xerox. We offer collaboration and enterprise content management software, as well as cross-media and production workflow software, just to name a few. Now, layered on top of this technology platform are capabilities which provide additional business value to our customers. And here are some examples. Security; due to the threat of cyber-attacks, security is extremely important. We provide security for infrastructure, user access, data in transit and data at rest. I'm going to talk more about security in a few slides, because it is so important. Mobility; to address the realities of the workplace and provide user information when, where and how they need it, sustainability that reduces the carbon footprint, imaging and scanning solutions, creative experts for content development, language translations in over 100 languages to deliver on our clients' global requirements and e-publishing for omni-channel customer communications. Our technology platforms and capabilities are then combined to offer valuable solutions in three areas, which really align very well to how customers want to consume these solutions. The first one is called workplace solutions, which is for the office environment and delivers cost effective productivity, mobility and security solutions for the knowledge worker. Specific offerings here include managed print services, personal and office productivity, and content and records management.

The next category is our business process solutions area, where we drive transformation into high volume, structured and repeatable business processes through content management and workflow solutions. Specific offerings include workflow automation, document and data transaction processing, and transactional print and mail. And finally, we have communications and marketing solutions to create and measure integrated, effective customer engagement across both print and digital channels. Specific offerings include document publishing, collateral management, demand generation and multi-channel communications.

We also have the ability and experience to offer this broad set of solutions to specific industry verticals, such as healthcare, banking, government and others. An example would be working with a healthcare client, looking to improve patient outcomes and lower the hospital's operating cost by rationalizing their print and imaging infrastructure. We might recommend, say after an assessment, that we right-size the environment with Xerox ConnectKey devices, including the new healthcare MFP with specific designs for nursing stations, fully equipped with HIPAA compliant security solutions and a workflow solution, designed to automate the patient admissions process, all wrapped around the Xerox Managed Print contract to ensure maximum uptime. That's how this portfolio comes together in a meaningful way for our clients, and we do that across many industries. All of these offerings are wrapped around our global service delivery, which not only ensures a great customer experience, but also provides value-added professional services, such as assessment and consulting, reporting through our quarterly business reviews and service performance dashboards and analytics, delivering information, rich information, for device and user analytics, as well as document and process analytics. This is the industry's most comprehensive document outsourcing portfolio and it provides our clients the ability to advance their digital transformation journey.

Now, to get a bit more granular on how the $21 billion market breaks down, you can see here that we have three segments, starting with the large enterprise. This has a $6 billion managed print services market that's growing at 2% and a $5 billion centralized print services market that is flat. Xerox is the clear leader here, but this market is fairly mature and is growing at only about 1% when combined. We do believe we have the opportunity to outperform the market and I will discuss that on the next slide.

The next segment is SMB. As Kevin mentioned, this is $7 billion market and it's growing 7%. We currently have right about 10% share and view this as a very attractive market. Every point of share gain deliver $70 million of revenue at attractive margins for Xerox.

And finally, we have the workflow automation segment, a $3 billion business growing at a robust 13%, and this is another attractive opportunity for Xerox. We have permission to play and credibility here. We're just getting started in a meaningful way, but the early signs for workflow automation are extremely encouraging and the margins on software sales are attractive and accretive.

So let's take a deeper dive into each of these, starting with the large enterprise. As I said, this is a big business for us, an area where we lead and have significant scale in our go-to-market and what we manage on behalf of our clients. We have aligned our sales go-to-market teams by industry to recognize that solutions we are offering here are less of a commodity and more strategic to our clients. We are building up our software professional services team and we are investing in new logo hunter reps to go after new business in a more focused and dedicated way. Our success in the large enterprise is not only limited to a disciplined go-to-market effort.

We also focus on delivering solutions that our clients require. And one of the most requested solutions is what I said earlier, security. Security is a key element of our managed print services strategy. Our approach aligns to our clients' IT and security policies. We provide consulting services, technology and tools to help them mitigate security risks and remain compliant. The topic of security comes up in almost every RFP we see. We consider both infrastructure and application security to be important. The infrastructure layer focuses on the end point, devices and servers, and their connectivity into the environment. Our ConnectKey devices are designed to be secure, with capabilities such as encryption, authentication and partnerships with McAfee and Cisco to ensure that they can operate in an IT environment and prevent viruses and malware attacks, while ensuring network reliability. Once on the network, we offer our print security audit service, which allows us to automatically find all devices, check the configuration of those devices on the network to ensure that each device has been set up correctly, as per the customers' IT policy and then correct the configuration of devices that do not comply. And we offer an audit report to the customer, we then remediate the issue to bring the device back to full compliance.

Let me share a great example here, where this security audit service helped us win a large global MPS deal worth tens of millions of dollars. The CIO of a Fortune 100 company had failed an IT audit, not related to print, but she did not want to fail future audits and she wanted to ensure that the print infrastructure was secure and compliant. We offer the print security audit service and our competitors did not have the solution. We won the deal and to date, it is one of our largest contracts.

Another very popular solution is our Secure Print Management Suite. This solution allows end users to use their employee badge, the same badge that they would use to maybe get into the building, to swipe and authenticate themselves at our MFPs, so that all printing is tracked and all scan-related business processes that are initiated on the MFP have an authorized and authenticated user associated with them.

Now, what is really exciting is where this is all heading. Customers are asking for content security. They want to have digital rights on the document that limits what end users can do with that document. As an example, they may not want someone to be able to print, save or forward the document. If someone attempts one of these actions, we will provide a track-and-trace audit that shows the activity. I was with a customer in the entertainment business just two months ago who was sharing drafts of movie scripts back and forth with writers, producers and actors. This is highly confidential, as they do not want the script to be leaked before the movie is released. Here our content security solution is the perfect answer. Also, think of companies who are sharing financial data prior to earnings announcements. These documents are also highly confidential and should be controlled and tracked. There are many use case examples like this and we are starting to pilot this content security solution with a few clients right now.

Let me share now with you an exciting win we just had last quarter to demonstrate our leadership in large enterprise. It was with the US Department of Agriculture. This win is estimated to have a $110 million value over the 10-year contract life. The USDA was looking for an enterprise-wide managed print service for their 3,000 sites. They care deeply about the ability to handle this scale and they wanted the right price with the right features, such as the security features we just spoke about. Xerox will deliver our managed print services solution with roughly 16,000 ConnectKey devices, leveraging our A4 and A3 products. And this is all new incremental business to Xerox. So that's a large enterprise.

Let me shift gears now and talk about the SMB MPS market. As stated, this is a $7 billion market, growing at 7%. Xerox has been growing much faster than the market for the past several years and this has become a meaningful business for us. There are about 1 million accounts in our target sweet spot of 100 to 1,000 employees exploring managed print services. 75% of these customers are served by channel partners. We believe we have a very strong value proposition to multi-branded channel partners to offer them the market leading MPS platform, a new and stronger A4 portfolio, combined with our already market-leading A3 products, plus production technology and the best brand in the business. We offer a broad portfolio to our channel partners to capture this opportunity.

We know that not all partners are in the same starting position. Some partners want to offer only remote monitoring, some want to offer a basic print service with just supplies replenishment and others want to deliver a full managed print offering. We can provide the full spectrum to meet their needs. And we will provide our partners with tools, technology, delivery and support, and we will expand our channel programs to make them and Xerox successful. I'd like to share a short video now with one of our partners, Pinnacle Solutions and how they are partnering with Xerox to offer managed print services to their customer called Buy As You View.

(Video Playing)

That success story showed a great example of how our partner brought the next generation MPS strategy to its customer. They executed stage one and two, with hardware optimization, sustainability to reduce the carbon footprint and you saw security and mobility solutions. The next step for Pinnacle with this customer would be workflow automation. So let's talk about workflow automation.

A poll recently found that only 10% of organizations are fully digitized across seven or more major processes. 29% still send letters to their customers, rather than through email or social channels. So there is a big opportunity here. Workflow automation is part of our three stage strategy and comes in three flavors; personal and office productivity, industry workflow solutions and managed workflow services.

Personal and office productivity solutions are targeted to the modern day knowledge worker, people just like us, helping them create everyday tasks such as annotating a document, sharing information, completing a form, signing critical documents, all without having to use paper. Access to information 7/24 is critical in our increasingly mobile and always-on world. And users will want to access this information on their device of choice. Key technologies in this area include digital alternatives, content management, and personal capture software. Our industry workflow solutions help automate and simplify customers' business processes. All of our customers are looking for ways to increase productivity and improved customer satisfaction. Our industry solutions do just that by providing software solutions to orchestrate how a process should run, removing paper and transforming the process to a fully digital approach, increasing speed, efficiency and removing the noise and friction associated with paper-based processes.

Over the past 12 to 18 months, we have announced over 25 industry solutions, covering most industries, ranging from account openings in banking, student onboarding and higher education, patient discharge in healthcare and claims processing and insurance. We also offer cross-industry solutions, such as finance and accounting and human resources. Our customers had experienced dramatic improvements, for example, reducing their number of process steps by up to 40%, while significantly improving quality

In delivering these solutions, which our customers operate, we have been frequently asked to perform some of the supporting business tasks, such as information scanning and data capture. To meet this demand, earlier this year, we introduced a complementary set of managed workflow services, enabling Xerox to manage our customers' document transaction processing activities. We deliver these services in a hybrid model, either on-premise or through our global footprint of delivery centers that we operate. Workflow automation represents the next logical step for our document outsourcing business.

So in conclusion, Document Outsourcing is a great market for Xerox. We are the leader and we are working hard to accelerate our growth in large enterprise, SMB and workflow automation.

Now, it is my pleasure to introduce our CFO, Leslie Varon.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

Thank you. I am stepping up, and soon I will be stepping down. This is [a] step Bill won't need. Good morning, it's great to be here with you today to discuss the financial profile of the new Xerox. We are and will continue to be a leader in the Document Outsourcing and Document Technology market with strong annuity-driven cash flows and a track record of operating discipline and capital return to shareholders.

We have an opportunity post separation to simplify, focus, accelerate change and amplify areas of historic strength. Specifically, we are transforming our cost base and bringing new products and solutions to market through additional distribution channels, which will enable us to improve the revenue trajectory over time. Jeff, Kevin and Mike have shared our revenue improvement strategies. So I'll spend my time on financials, our business model and more specifics on our strategic transformation.

We operate at scale with 2015 revenue of over $11 billion, strong margins and strong operating cash flows. 75% of our revenues are annuity in nature. So, only 25% of revenue is from current period equipment sales. The predominance of our contracts are bundled, with average terms of just under four years, leading to a relatively stable revenue trend. As Jeff discussed, 37% of revenues are in what we've termed are strategic growth areas, which reflect the more attractive and growing areas of our market. I'll talk more about why that's an important focus for us in a minute. Our revenues are weighted to higher value segments, such as Document Outsourcing and A3, but overall, we have a relatively balanced mix, underpinned by our broad product portfolio - with consumer and low-end entry products, the one area of the market where we really don't participate.

From a geographic perspective, we have good exposure to the US with just under 60% of revenues generated domestically. We have a strong global presence, especially when including our 25% equity ownership of Fuji Xerox which operates in Asia. Our business model supports strong recurring revenues and predictable cash flows.

From a revenue perspective, it's about the population of machines generating revenue with our customers and the equipment revenue we capture from new placements. Our model contemplates an approximately 5% annual price decline on equipment. This has been consistent for years and we continuously drive productivity to offset this decline. Like most technology hardware companies, we plan to capture productivity from the technology curve, but unlike a lot of hardware companies, 75% of our revenues follow equipment placement. Those revenues are driven by the page volumes being printed on the machines in the field.

Page volumes have been declining, as enterprises restructure and push for efficiencies. Within the annuity, it's also about gaining greater stickiness with our clients through Document Outsourcing, increasing our share of wallet, capturing competitive pages and layering in new revenue streams from areas such as workflow. And of course, it's also about the very profitable supplies revenue stream. Unlike some of our peers, supplies are bundled into our contracts, so less volatile, as only about 13% of our revenues from supplies are unbundled.

Turning to profitability, our drive has been to maintain strong margins through a consistent focus on cost productivity. We have a large addressable cost base and work at leaning out our infrastructure, knowing that we have to address mature market pressures and variables we don't control, such as foreign exchange rates. Our strategic transformation program is intended to accelerate our cost productivity beyond what we have historically delivered in order to provide opportunity to selectively invest, while mitigating revenue declines and flowing some savings to the bottom line by expanding our margins. It should be noted that we earn attractive margins on equipment, with the exception being the A4 entry product area, but it's clearly the annuity follow-on revenues that underpin our profitability and drive our strong operating cash flow. In the near term, we expect cash flow will be somewhat dampened by higher restructuring payments and pension contributions. Over time, we expect free cash flow will grow with earnings as our CapEx requirements remain modest.

I'd like to take a moment to talk about our recent performance. These figures represent the new Xerox. So a recasting of our printing business results to align to our anticipated reporting post separation. It includes what used to be our Document Technology segment, our Document Outsourcing business and a couple of others that transition back from BPO, as well as the document related revenues from Xerox's Other segments, such as paper. We have some reconciliations in the appendix to help you transition from our current reporting to the new Xerox.

Let's look at the trends over the past couple of years. Our topline performance has been under pressure from mature market segments but declines began to stabilize over the past year. Through nine months, revenue is down 3.7% at constant currency, which is almost a point improvement from last year's 4.6% decline. Translation currency has been a sizable headwind for the past two years; 5 percentage points in 2015 and 2 percentage points year-to-date in 2016. Constant currency declines reflect lower entry and mid-range revenues, only partially offset by growth in Document Outsourcing. Entry declines were pressured by developing markets weakness, especially in 2015 and mid-range declines reflect the overall lower growth profile in that market segment. So, overall, revenue declines are moderating with greater contribution from strategic growth areas, which provided a modest positive in 2016 and with more expected going forward.

Operating margins, similar to our current segment margin definition, includes equity income and excludes non-service retirement-related costs. In 2014, margin followed a similar pattern to what you would have seen in our Doc Tech segment, very strong at 13.3%, boosted by the weaker yen and therefore, positive transaction currency. In 2015, margin of 12.7% was pressured by modestly negative transaction currency, lower equity income and cost pressures, as the Company directed the limited second half restructuring to the BPO business.

September year-to-date 2016 operating margin is 11.9%. It's helpful to look at the sequential pattern this year for context. Quarter one was low at 10.5%, coming off the lighter second half 2015 restructuring and pressured by higher transaction currency. Margins have improved during the year, driven by our cost actions with quarter two at 12.7% and quarter three at 12.5%. We expect further progress in quarter four, driven by the ongoing cost action flow through, as well as natural seasonality.

Free cash flow averaged over $900 million, both in 2014 and 2015. This year's cash flow is lower due to one-time separation costs and higher restructuring. Like the operating margin, quarter four is our seasonally strongest cash-generation quarter. So the September year-to-date results aren't representative of our full year expectations. If there are only a handful of things you walk away with today, I hope that one of them is that we're driving a credible, a really credible set of actions to improve the revenue trajectory, while remaining committed to strong margins. Jeff, Kevin, and Mike have provided the elements of that plan, I'll bring it together financially.

First, we're targeting growing market segments. So this isn't just about share gain, although we think that's an opportunity, especially in the small-medium business and A4 area. Second, strategic growth areas are currently 37% of revenues, so they don't represent a majority of revenues, but they're also not de minimis, so they can move the needle. Third, by applying market growth rates, we can get strategic growth areas to 50% or greater by 2020. If you layer in some share gain and/or modest inorganic contribution, we can get to an even higher percent. Rough math would say we should be able to move the mix by about 3 percentage points a year and this will begin to change the revenue trajectory, although in the near term, some of this benefit will be offset by anticipated higher declines in non-core OEM revenues, as we are repositioning this element of the business.

Finally, and to add further context, 2016 year-to-date strategic growth area revenues are growing 2% and have increased by 2 points as a percent of the total revenue and this is without the benefit of our upcoming product launches and channel expansion plans. So we think this is the right yardstick to measure our progress and you'll hear us report each quarter on growth in total for these areas.

Our strategic transformation program underpins our confidence in both our revenue and margin objectives. The gross productivity we expect to capture supports continued strong margins and enables a greater, albeit measured reinvestment in the business to drive improved revenue. We're addressing an almost $10 billion cost base, so a sizable spend base. We have experience programmatically delivering productivity through ongoing restructuring and attrition capture, as well as supplier sourcing, manufacturing cost downs, and efficiency gains in our work processes. But we're leveraging our strategic transformation program and the separation window to take this to new heights. We've engaged external experts to help us identify untapped opportunities, reengineer more broadly than we have in the past and apply an unrelenting measurement and management discipline to ensure fast execution.

The initiatives tackle all levers and are well-defined, each with a detailed business case, clear owners and sponsors, and weekly milestone plan. They span the entire cost base, from delivery, cost of production, G&A, supply chain and procurement, to sales and contracting and include everything from simplifying our business model and processes and reducing management layers to introducing new pricing optimization tools. The scale, pace and transparency of the program is very different than we've attempted in the past. We're off to a fast start. We have over 1,700 initiatives underway, we are leaving no stone unturned.

Let me highlight a few of the more significant areas we're tackling. We're rapidly consolidating our supply chain to a global function and have targeted efficiency opportunities by outsourcing consumables distribution to third parties and consolidating our North American warehousing footprint. As Jeff discussed, we've streamlined our organizational structure, aligning geographically to consolidate our P&Ls, reducing matrix management and management layers by 30%, consolidating and right-shoring back-office support functions, while also reducing our real estate footprint.

On the sales front, we targeted productivity by optimizing our coverage footprint and empowering our teams with better market data and tools to win more profitable deals. Additionally, we're optimizing sales incentives and management processes to drive greater sales productivity. And on the delivery front, we've consolidated managed print and technical services delivery resources under one organization. We also continue to leverage both new technologies and tools to reduce the number of service calls. We have clearly begun to execute on many of these initiatives and are already tracking their progress through to the bottom line.

So, let's take a look at our operating margin dynamics and how the strategic transformation program will factor into our expectations. September year-to-date operating margin is 11.9% and with our typical quarter four seasonality, we expect full year 2016 operating margin will be between 12% and 12.5%. We face year-over-year downward pressure on margins from revenue and price declines, which we've historically offset through our traditional productivity efforts. Transaction currency is a variable factor. We source about $1.7 billion of product, parts and supplies from Fuji Xerox, so the yen is our largest exposure. But we also source components from suppliers in other parts of Asia and have exposure to other major currencies, given transaction flows between our major markets. We layer in hedges to smooth currency movements. We also have a currency risk sharing agreement with Fuji Xerox, which means we and they share equally over time the impact of movements in the yen versus the dollar and the euro, which further mitigates near term currency swings.

In some years, foreign currency changes have resulted in negative pressure on margins, such as this year, and in other years such as 2014, when the yen was quite weak, it's been a positive. So the impact can be a range, either positive or negative. The last two bars represent the impact of the incremental cost transformation actions that we're implementing. A portion will flow through and drive margin expansion and we'll selectively reinvest a portion to improve the revenue trajectory. The net is that we expect to be able to expand our margins to the 12.5% to 14.5% range, including the impact of typical foreign exchange volatility. As Jeff mentioned earlier, at recent exchange rates, we do expect transaction currency will be a headwind in 2017, offsetting some of the benefits of our cost transformation.

Shifting to debt and our capital structure, we have a solid balance sheet, where the large majority of debt is backed by our financing assets and core leverage is very manageable. We're committed to maintaining our investment grade credit rating and we'll manage our debt and leverage accordingly. Our debt maturity ladder is balanced and it includes about $1 billion of annual maturities in the near term, generally matched with our finance assets, which have an average maturity of about two and a half years.

We generate significant free cash flow in support of our capital deployment objectives and our strong track record of responsible capital management will continue. The majority of our debt supports our captive financing business, which is an attractive high return business for Xerox. Our financing is provided as part of our bundled technology and managed print services offerings and is a differentiator that enhances Xerox's value proposition and customer acquisition.

We derive our implied financing debt by applying a 7:1 leverage ratio to our finance assets. As of September quarter end, this resulted in approximately $3.8 billion of implied financing debt. We expect to receive a $1.8 billion dividend distribution from Conduent upon separation. We'll use the distribution and $200 million of cash on hand to reduce core debt, implying pro forma 2016 core debt of about $1.5 billion. We have disciplined credit processes and a diversified customer, industry and geographic mix, which is reflected in our low bad debt levels and strong returns.

Turning to cash flow, Xerox has long been valued for its strong sustainable cash generation that stems from our profitable annuity model and low capital expenditure requirements. The slide shows 2015 as an illustration of the cash generated by this business. In 2015, we generated about $1 billion in operating cash flow and $900 million in free cash flow. The variables to consider when thinking about the future cash flow trajectory are the following.

Profits should expand over time as margin expands and the revenue trajectory improves. Working capital can fluctuate, but generally we expect improved working capital, driven by transformation efficiencies. In the near term, we expect higher than historical restructuring payments, driven by the strategic transformation program. Historically, we've spent about $100 million annually on restructuring, that's being doubled in the near term. After 2018, that should normalize. We also assume higher pension contributions in the near term, averaging about $400 million per year in each 2017 and 2018, reflecting expected higher lump sum settlements in 2017, as well as the impact of new mortality tables and moderating benefits from legislative pension relief. After 2018, we expect annual pension contributions will be below 2015 levels. One time separation payments will be substantially complete in 2017, but are incremental if you use 2015 as the baseline.

Finance assets, which includes finance receivables, as well as the net impact of additions to equipment on operating leases and operating lease G&A was a modest source in 2015. Overall, the finance asset contribution to cash flow has been trending positively, as the impact of prior period finance receivable sales, which pulled forward cash flow into 2013 and 2014, has dissipated. Future impacts to cash flow will depend on the level of equipment sales and financing penetration rates.

Overall, our cash flow model is a strength, consistently delivering free cash flow above net income. We expect continued strong sustainable cash flow generation that will improve over time with profit growth and normalization of restructuring payments and pension contributions.

We have a track record of disciplined capital allocation and will further strengthen our business through the separation, as we deploy our cash to support our core. In 2017, we'll reduce leverage to strengthen our balance sheet and achieve a sustainable investment grade credit profile. Investments include relatively modest CapEx and some small acquisitions in the targeted growth areas we've been discussing to improve our portfolio mix and drive profit expansion. We're targeting to return over 50% of free cash flow to shareholders through dividends and share repurchases over time.

We're announcing today that we expect the new Xerox will have an initial annual dividend of $0.25 per share, beginning with the April 2017 payment. We believe this will provide a very attractive yield at or above our peer averages. So, overall, a balanced capital allocation approach, based on a disciplined evaluation of relative returns, which will include returns to shareholders and investment in the business.

I'd like to take a moment now to touch in more detail on our dividend policy. Post separation, Xerox will have a $0.25 annual dividend. This is a 19% reduction from the current dividend to adjust for the spinout of Conduent, which reduces our revenue by almost 40%. Despite the reduction, we will continue to have a strong dividend and you can expect future dividend increases will be driven by earnings and free cash flow growth. The January dividend payment, which was declared by the Board in October, will be paid in line with the $0.31 per share current annual dividend. The April 2017 dividend, which we expect the Board will declare in the first quarter, will be at the new $0.25 annualized level.

Turning now to a high-level look at our future performance expectations. Jeff and Bill will provide 2017 guidance for the Company when they announce fourth quarter earnings in late January. Right now, we want to provide a directional framework of what you can expect from Xerox over the next few years. Beginning with revenue, we expect the 2017 constant currency decline to be similar to 2016, with equipment revenue improvements beginning in the second half, as new products begin to benefit our results. In 2018 and 2019, we expect sustained improvement in the revenue trajectory, as the strategic growth areas become a larger portion of our revenue, reflecting the benefits from our new products and channel expansion efforts.

Operating margin is expected to expand modestly in 2017, driven by our strategic transformation program savings, more than offsetting potential headwinds from currency. Using November 30 foreign exchange rates, we expect to have more transaction currency pressure than we faced in 2016. Operating margin expansion should continue in 2018 and 2019, benefiting from continued strategic transformation savings and assuming neutral currency.

Operating cash flow, as highlighted earlier, will be below our normalized level in 2017 and 2018, driven by higher restructuring, as we continue to implement our strategic transformation program and higher pension contributions. We expect 2019 operating cash flow to return to a normalized level of $900 million plus. So overall, improving trends in the business as we benefit from the strategies outlined today.

I'm excited. I'm really excited about the prospects for this more focused and streamlined company as the new team continues our track record of strong operational discipline, accelerates productivity through the strategic transformation program, increases our participation in the growth markets and then will, therefore, be able to provide improved returns to our shareholders. And I'll now turn it back to you, Jeff.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Thank you, Leslie. This is truly an exciting time for our company. We're building on our strong foundation to start a new chapter for Xerox. We have a focused and energized leadership team with a good mix of internal and external talent. We will capitalize on our market leadership positions and innovation capabilities to drive improving revenue. The new Xerox will be punctuated by the $1.5 billion savings from our strategic transformation program, our largest ever product launch and an efficient customer and partner focused operating model. These components, along with investments aligned to growth areas will shift our revenue mix, such that we generate at least half of our revenues from growth segments by 2020, changing the trajectory of the Company's topline and outperforming the market. We have a very profitable cash generative model, and we are committed to retaining our investment-grade rating, while providing an attractive dividend and growing shareholder returns. I feel really good about our business, our strategy, our leadership team, our level of focus and how we are positioned for the future.

With that I'd like to ask Leslie, Kevin and Mike to please join me and we'll open the floor for questions.

QUESTIONS AND ANSWERS

Shannon Cross - *Cross Research - Analyst*

Shannon Cross, Cross Research. I guess my first is, I'm curious on the SMB side. I feel like we've heard this story before from HP, we've heard it from Xerox, we're going to go after the SMB, it's going to be great, the partners are going to adopt us and then nothing really seems to happen. So I'm curious as to what's different this time in terms of your approach to working with the partners, because everybody's talked about it, but it's hard when you don't have a direct contact with the end customer to actually do MPS?

Mike Feldman - *Xerox Corporation - Corporate VP & President, Large Enterprise Operations, Xerox Technology*

Yes, I'll be happy to lead off and Kevin and others can chime in as well. I think we are relentlessly focused on multi-branded channel partners, like we have never been before. We have a great Global Imaging business that serves the SMB market, by and large, and we have mono branded agents that do some of that as well. But the multi-branded channel partners is one where we have very low market share, and one we have not yet made a serious attempt to go after. We are now absolutely doing that. We are doing that now, because we feel the product portfolio is correct, is right. The A4 products are really important to this channel and to SMB customers. So we always had market-leading A3 products. But without the A4, it was missing a big component. Now with the new launch coming, our biggest launch ever and really a huge focus on A4, the timing is right. Plus, the MPS, the managed print services market is really right for the SMB market. MPS started with large enterprise and now the government is taking it on and now we're seeing SMBs really adopt MPS. So, we've got the right MPS platform, the right A3 and A4 products and we have a new focused leadership team going after multi-branded partners. We think we can now actually be successful.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

I agree. In channel also -- and Mike is spot on -- I think couple of other things is, we have some proof points now. One is this is all greenfield for us. This is $20 billion that we just quite frankly did not focus on. So we've had a number of channel partner recruiting meetings. We just had one in the US just a month ago, 50 potential partners -- a little less than 50, 48. We brought on 20% of them. We've done the same thing in Europe with the same success rate. As Kevin showed, we're focusing on the top ones. We've tended to focus more on those with under $5 million of revenue. We're focusing on those with $5 million and $10-plus million of revenue. I think a couple of other things. As Mike said, we have 29 new products coming out. They've always wanted our A3. Now we have an A4 that's cost competitive that we're able to share the margin with them, they will be able to bring A3 along with it. As Mike said, we'll be able to bring the managed print services tool. But there is one more thing I hear a lot from the reseller channel is they're all asking about the industry consolidation. And they want to make sure they hitch their wagons to partners that they know will be here. And when they look at us as an industry leader, they have great confidence.

Shannon Cross - *Cross Research - Analyst*

That's actually a really good segue to my next question, which is what are you --

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Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

I was doing that for you.

Shannon Cross - *Cross Research - Analyst*

Thank you. Good practice. I'm curious of the competitive landscape, because you've got the Japanese that are challenged by currency, so theoretically - we were just in Tokyo - theoretically they are not going to be as price aggressive next year. You've got HP, Inc., which has spun off and has a new energy that frankly is kind of similar to what we're hearing here, just refreshing in the printing industry. You have Lexmark, which has got sold to the Chinese. I'm curious as to what you're thinking, and then you can throw in the Sharp and Toshiba TEC and all the companies that probably shouldn't be necessarily in printing anymore. So what are you seeing from a competitive standpoint?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

So we always have great respect for our competitors. But what you're seeing from the strategy is we're focused on our strengths. We're focused on -- I'm going to take you back to the growth inflection slide that I showed you earlier. Basically, 55% of the market is mature. We had an 8 point disadvantage. 63% of our revenues in 2015 were mature. So we're looking at the A4 market, a $12 billion market growing at 3%. We're looking at graphic communications and production. We call that a $5 billion market, but you know this as well as anyone and Kevin pointed it out, there are 50 trillion pages and only 3% of those are digital. Over time, that's about another $60 billion market that in the coming decades will be moving over to digital. That's exciting for us. The SMB part of managed print services, a $7 billion market growing at 7%, that's all greenfield for us. So we respect our competitors. We understand the landscape, but we're really playing to our strength and where we can grow.

Matt Cabral - *Goldman Sachs - Analyst*

Matt Cabral from Goldman Sachs. So, you mentioned acquisitions as being more a part of the strategy going forward. Could you just give us a little bit more detail on where are you thinking about acquiring and any sense of a target size that you'll be looking to go after?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

So we're looking at tactical M&A I'd say, especially in our first year. As you could tell, we have a lot on our plate. We have a lot of growth opportunities and we want to be very cautious and deliberate in how we proceed. So when we look at our capital allocation strategy, every free dollar of cash flow we have, we measure it against return of capital. We are relentless on ensuring there's an ROI and what we're going to do is, where will we get the best return on investment. If you would look at the specific areas Matt that you'll see us investing in, Mike talked about workflow automation. He talked about professional services. You could see us doing things in inkjet. If you look at our display over here, you'll see things in packaging. We're going to stay very close to our knitting, do things that are tangential to what we do today and that we believe we would be very good at, but we think we'll certainly be modest in the first year and then incrementally as we're generating more cash flow, apply it against our return of capital.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

So, I'd add on one other thing, which is distribution expansion. One of the things that Jeff talked about earlier was the success of Global Imaging since we acquired them 10 years ago. Over time, they have done small bolt-on acquisitions, have acquired dealers around the US. We are going to continue that strategy in 2017 and we'll begin to replicate that strategy selectively in Europe with some dealer acquisitions there.

Matt Cabral - *Goldman Sachs - Analyst*

And then on capital return, could you just talk about how you are thinking about the opportunity for share repurchases over time? It was a little bit unclear, do you expect to actually purchase any shares in 2017, or is it 2018 and beyond where we should expect buybacks to start coming back?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

You should expect buybacks beginning in 2018. We will prioritize our cash in 2017 to: one, ensure the investment-grade credit rating is retained; two, to pay the attractive dividend that we talked about earlier, that I talked about earlier; three, for some selective acquisitions and then we'll be opportunistic with what's left. But we wanted to be clear and not set an expectation in the near term. Over time, as we said, we do expect to return over 50% of our free cash flow to shareholders through the combination of dividend and share repurchases.

George Tong - *Piper Jaffray - Analyst*

George Tong with Piper Jaffray. I'd like to dig deeper into your transformation cost savings. In a footnote you indicate that $300 million to $350 million of savings are business as usual savings. Does that imply that you expect $1.2 billion of incremental savings, and what amount of reinvestment would you expect to get?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

So George, if you were to take the $300 million -- so let's just use $333 million, and let's call it a $1 billion over a three-year period. That's what we would have driven typically from 2016 through 2018 and it's gross productivity. So the $1.5 billion over a three-year period would be $500 million of incremental gross productivity. As you saw from the chart that Leslie put up, 2014, when currency was our friend that enabled us to do better. When currency has been a headwind, as we've seen in 2015 and 2016, we offset a lot of it but not enough. And that's why we're going to a different level over these next three years, because we want to ensure that we can offset whatever is going to come. More importantly, we want to reinvest back into the business, because we have to change the revenue trajectory. And we're making modest investments when we do that, but that's what will enable us to take the revenue from the negative 3.6 to something better as we go. And then if we can layer in some deliberate M&A over the next three years in a very conservative way, I like that story.

THOMSON REUTERS

George Tong - *Piper Jaffray - Analyst*

Can you provide some details around the expected phasing of your incremental cost savings?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Yes, it's what we had on the chart. So we had basically $500 million of gross productivity in 2016, it went up to $1.1 billion in 2017 and then as I said, we haven't fully filled the funnel for 2018, that's why I expect we will do better than $1.5 billion.

Kulbinder Garcha - *Credit Suisse - Analyst*

It's Kulbinder from Credit Suisse. Just a couple of questions if I can. On the revenue performance, I just want to be clear what you guys are saying. Are you expecting this business to potentially still shrink in 2017 and 2018 and you hope it's a growth business. Could you talk about an improved trajectory, if I'm thinking about positive revenue growth, and is that organic or inorganic, or what is that statement?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Yes, so from an organic standpoint, we would still expect to decline in 2017 and 2018, but improve the revenue trajectory. And the reason is when we're talking about things like growth in managed print services in the SMB space, A4, multibrand channel expansion, those are new growth dollars that will be coming in. We have to remember that the market still has that 55% of the mature part. That's why it's so important that by 2020 when we get to the inflection point of more than 50% of our revenues seeing growth that's when we could see things starting to potentially turn. There will still be declines coming, which will offset that growth and that's why some tactical M&A will be very important.

Kulbinder Garcha - *Credit Suisse - Analyst*

And then on restructuring, it feels like this is going have to be even beyond the next couple of years, many years of this continuous productivity improvements, which probably means more restructuring. So when you said the cash restructuring would go down two years from now to about $100 million, why does it go down and why couldn't that be high, I just want to understand that?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

So, historically, in this business we do about $100 million of restructuring every year and that's part of the way that we capture the $300 million to $350 million a year of annual productivity. When we capture that productivity, half of it comes from our suppliers and the other half comes from a combination of capturing attrition and restructuring. What we've said is in 2016, 2017 and 2018, we expect restructuring cash outflows will be about double that amount as we implement the strategic transformation, layered on top of our traditional productivity capture. Post 2018, we expect restructuring outflows will return to the normal annualized level of about $100 million a year.

Kulbinder Garcha - *Credit Suisse - Analyst*

And then finally on the channel strategy that you guys are talking about, it kind of seems very obvious this should have been done many years ago. I'm kind of curious just why it wasn't?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Part of it is, you have to remember what the channel buys and A4 is -- and Kevin could talk about this a little more -- A4 is very important. So Leslie made a point that basically said that everybody in this industry when they put in an A4 device, or the entry part of the portfolio, every manufacturer in this industry will lose money on the box. So in order to then share margin with the channel partner, you would lose even more money. This new portfolio introduction we have are 13 new A4 products at a much more total cost of delivery effective cost point will enable us to share some net margin, but even more importantly than that is the functionality that they need for their customers. And then they'll bring along A3 product for us. But, Kevin, feel free to supplement it.

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

Yes, I would also mention that we have participated, as Jeff referenced, through the Global Imaging network. So, if you think about that acquisition that we made in May of 2007, it was disruptive to the market and it was a $1 billion business, and now it's $2 billion. And two-thirds of that was through acquisitions. Now, we are going to augment that by not only doing acquisitions, but also more aggressively go after this market, which will require an improved portfolio, because these partners have options. So you need to make sure that from a price value standpoint, you have something to compete with this launch. We're going to be extremely competitive, combined with our managed print services, as the adoption of that and SMB becomes higher and higher. In fact, that we're rated the best that becomes more compelling. And then we'll also, quite frankly, Xerox over the years, where we're world renowned for having a strong direct sales force, sometimes that's something we really embrace. We're going to bring in additional talent that is more familiar with this model to kind of help us more actively recruit. So I'm very comfortable you'll see a significant uptick in our sell-through to this channel going forward.

Brian Essex - *Morgan Stanley - Analyst*

Good morning. Brian Essex, Morgan Stanley. In your presentation, you commented that you had a -- I guess, a strategic alternatives review or consulting review of the business. I was wondering if you could share with us some of the key observations from that review, outside of cost initiatives, in terms of whether a certain management or other restructuring observations that they made as a result of that?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

I think it's interesting, because we brought in consultants really to validate our strategy. So the way it worked is, we brought them in and we developed a strategy and we said we want you to pressure test it. We want you to tell us and validate it. If you disagree with it, you tell us. It was basically the strategy we just laid out to you today. The way we talk about it internally, they said put it on steroids, they believe in it so much. And that's what gave us the confidence to really take the transformation to a totally different level to help fund it. And that's the beauty of the separation. We will be able to be singularly focused on our business. Every dollar that we have will go back to our shareholders, it will fight for the return of capital, it will be -- how do we get the best ROIC in any investment we make? And I assure you, inside this business, this team is relentless on every line item, every dollar we're spending. So it gave us great confidence and we're quite frankly very energized about it.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

I could add two points. One, they said you guys are very good at the cost side, you are very disciplined on the cost side. We think you need to apply that same level of energy, discipline and focus to turning revenue around. One. Two, they said, as good as you are in some areas on the cost side, you have lots of opportunity in other areas. So they opened our eyes to benchmarks in other industries and it wasn't just here's the benchmark, but it's also here's how you have to change in order to capture those cost savings. And that's different than anything we've done in the recent past.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

And Brian, if you would look at the chart that Leslie laid out, which she talked about very, very high-level guidance of 2017, 2018, 2019. The way I describe it is, 2017 is all about cashing in the transformation, the vast majority of it, $1.1 billion of the $1.5 billion. And again, we're not doing it just for transformation, we're doing it to be able to reverse the revenue trajectory. Then we get to 2018 and with the new products that are coming out in 2017, I think we'll really start seeing that turn. Certainly, second half of 2017 we'll start seeing the equipment coming in and then you'll start getting the post-sale revenue. And then we like the way that model looks and then as we generate more and more cash flow, then we actually start thinking about what we call internally Horizon 3. What are the other investments we should be making in things such as packaging, professional services, workflow automation, so that maybe there is an adjacency with a second and third leg in the Xerox stool in future years.

Brian Essex - *Morgan Stanley - Analyst*

And maybe if I could just follow up, maybe to George's question, if we can get some clarification of the $1.5 billion in savings over the next three years, give a trajectory of offsetting reinvestment spending and how you anticipate that to offset that $1.5 billion over the next three years, how do we think?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

I think Leslie -- and I'll let her supplement it -- had the sources and uses slide pretty much. But basically, if you just think about an $11 billion business declining in broad terms at 4% that eats up a lot of the productivity in a given year. That's why I said before when we were driving $300 million to $350 million, if it was a currency-neutral year that would pretty much keep us where we were last year. If currency went the wrong way, we would actually earn a little less. So that's why we're taking it to the next level. We're going to be very deliberate in the investments, but the investments that we will be making from an organic revenue standpoint will be in the growth areas you saw; A4, SMB, multi-brand channel expansion and some of the other things you've seen.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

So, investments for sure are going to be paced and they'll be paced based on what's going on in the marketplace, what's going on in our business, in order for us to be able to expand the margin for sure and then selectively reinvest. And as we see the benefits of those investments flowing through, then we'll become more confident about the ability and open the trajectory a bit further.

Mike Feldman - *Xerox Corporation - Corporate VP & President, Large Enterprise Operations, Xerox Technology*

Yeah. In fact, if I wanted to spend the money, but I'm pretty cheap, I'd buy everybody a t-shirt in the company and say, we don't get out ahead of our head lights.

Shenlun Wang - *Brean Capital - Analyst*

Shenlun Wang from Brean Capital. So, I'm just wondering, given your focus just from the -- what's the new cadence of product cycle for 2017, 2018 and beyond? And also we've heard lots of nice things about synergies. Do you expect any possible dissynergies?

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

Yes, I could begin.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

Are you going to do just synergies.

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

No, I think, I'm going to save that for you. I don't want to hog it all up myself. So, innovation, as I referenced, is going to be -- we're going to double down on innovation as it's going be focused squarely in the technology space, as opposed to spread on technology and BPO. A big part of the innovation is going to be aligned to our product portfolio and our product roadmap. So although we do tell that 2017 is going to be a large as ever, it'snot just a big bang and we're done for five years. This will be an ongoing process, in which we'll leverage the IP and the scientists we have in PARC and other places to look at our portfolio, what our clients are dealing with, the trends that our clients might be dealing with in the future, how we can help them help their clients and you'll see a continued, rapid and competitive portfolio release going forward.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

And before we turn it over to Leslie, I think one thing that's important, I introduced Steve Hoover earlier, who's on January 1 going to become the Chief Technology Officer for Xerox. Steve will report directly to me, where our former Chief Technology Officer did not report to the CEO. Steve is formally the CEO of Palo Alto Research Center, PARC. And the beauty is where we were kind of sharing what was being invested in PARC with the BPO business, everything we do in PARC now is going to be 100% related to this business from an investment standpoint. And what Steve is going to do is look across our entire portfolio, from the Part R of research, to the development and engineering and bring it all together, so we bring innovation back to where we want it to be.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

And on the dissynergies, we've said $40 million to $50 million is the estimate. The dissynergies obviously will fall to Conduent, because they become a new public company. You should never hear Xerox use the word dissynergy going forward or talking about needing to offset dissynergies.

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

Understood.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

I'm talking to my colleagues.

Shenlun Wang - *Brean Capital - Analyst*

And my next question is sort of, you talked a lot about strategic growth parts. On the mature side, I believe your digital color is still growing. So my question is, when or what year do you believe the growth in digital color will overtake the decline in black and white, because obviously that will be avenues that you guys haven't even talked about today.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

I mean, what you see in the production space, our digital color already is growing, because there is a lot of pages and that's what's driving the growth. When you look at our mature business, you look at things such as A3. A3, as Kevin showed, is a $23 billion market, and we have a 22% market share, but the market is declining 5%. So, even though we might not get to growth in A3 on the total business, because annuity is 75% of the model, we believe we're going to gain more share, so which will mitigate the declines and actually help the overall growth story.

THOMSON REUTERS

Shannon Cross - *Cross Research - Analyst*

Okay. I have a few quick ones. How much cash you need to run the day-to-day business?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

We currently believe we need to have $900 million on the balance sheet. But there may be opportunities over time to reassess.

Shannon Cross - *Cross Research - Analyst*

And then your -- I don't know what to call it -- cousin sister -- Conduent, today five for one reverse stock split. You are going to be in the single-digit category most likely after this spin. So what are your thoughts on stock split -- reverse stock split, sorry?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

Our thought is that at the upcoming Annual Shareholders Meeting of Xerox, we will also propose a reverse stock split.

Shannon Cross - *Cross Research - Analyst*

Then Leslie, you mentioned non-core OEM revenues. I assume that's Dell, maybe I'm wrong, but what's your thought on how much impact to revenue that would be?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

So the non-core OEM business had $400 million of revenues in 2015. Year-to-date it's gone down 15%. Dell, there are more customers like Dell, but we expect an accelerated rate of decline in that revenue stream. So that will pressure the total Company's revenues. But importantly, and it's why we call it out as a non-core OEM business, it really isn't [Jermae] exactly.

Shannon Cross - *Cross Research - Analyst*

And finally --

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

You're good Shannon, look at you.

Shannon Cross - *Cross Research - Analyst*

Have them listed. Can you just confirm the separation cash cost that you assume for 2017?

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

So we haven't been explicit yet. There are some faucets not quite clear which year it will hit, but I expect it will be somewhere between $50 million and $100 million, both firms in total.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

We have time for one last question.

Shannon Cross - *Cross Research - Analyst*

So, you'd be 25 or 50? Or?.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

The split is still falling out.

Matt Cabral - *Goldman Sachs - Analyst*

So you spent a lot of time talking about the revenue mix between the growth areas and the more mature areas of the market. But is there a margin differential that we should be thinking about between those two buckets, either on operating profits or cash flow? How does that mix look and how do you expect that to trend over time?

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Yes, so we manage everything truly from a bottom line margin mix. When we're looking at most of our growth areas, if you think about A4, where we're going to grow, SMB, especially in the managed print services space, new logo accounts. It's mostly incremental business to us. The majority of it will be incremental and it wouldn't necessarily be mix. Some of it will be. But more of it's going to be incremental business for us. So from a bottom line standpoint, we will be protected.

Leslie Varon - *Xerox Corporation - Corporate VP & CFO*

And, importantly, as we have said in the past, the segment margins or the operating margins on Document Outsourcing are very similar to the total margins on Document Technology. So that should not dilute the margin.

Kevin Warren - *Xerox Corporation - Corporate VP & President, Commercial Business Group, Xerox Services*

As is the case for SMB, MPS, margins are in that same region.

Mike Feldman - *Xerox Corporation - Corporate VP & President, Large Enterprise Operations, Xerox Technology*

And SMB market opportunity for price is as good, if not more favorable to the large enterprise mix, we should benefit.

Jeff Jacobson - *Xerox Corporation - Corporate EVP & President, Xerox Technology*

Great. So, thank you. So let me wrap up our session by reiterating the four things I'd like you to remember when you think about the new Xerox. With market leadership and the stability of a largely annuity-based business, we have a strong, attractive business model. We are taking our cost and productivity efforts to a new level and expect to deliver an average incremental savings of $150 million each year from 2016 to 2018. Our productivity efforts will provide a very solid financial foundation to support strong cash generation, margin expansion, and the ability to reinvest in the business.

We are executing on our strategy to capture opportunities in our strategic growth areas. We are expanding our channels and bolstering our portfolio with the largest product launch in the history of this Company. We will shift our revenue mix, and generate at least half of our revenues from growth segments in the market by 2020, changing the trajectory of the Company's topline and outperforming the market. Finally, we are committed to deliver ever increasing returns for our shareholders. We are a new Xerox, and we are well positioned for success.

Thank you again for your time and interest this morning. For those of you who have joined us on the Web, this will conclude our session.