



Non-GAAP Financial Measures

Q2 2024 Results

July 25, 2024

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with GAAP.

Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

Adjusted Earnings Measures

- Adjusted Net Income and Earnings per share (Adjusted EPS)
- Adjusted Effective Tax Rate

The above measures were adjusted for the following items:

- Restructuring and related costs, net: Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.
- Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods
- Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.
- Transaction and related costs, net: Transaction and related costs, net are costs and expenses primarily associated with certain major or significant strategic M&A projects. These costs are primarily for third-party legal, accounting, consulting and other similar type professional services as well as potential legal settlements that may arise in connection with those M&A transactions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned transactions. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis
- Discrete, unusual or infrequent items: We exclude these item(s), when applicable, given their discrete, unusual or infrequent nature and their impact on the comparability of our results for the period to prior periods and future expected trends.
 - Goodwill Impairment
 - PARC donation
 - Contract termination costs – product supply

Non-GAAP Financial Measures

- Accelerated share vesting - in connection with the passing of Xerox Holdings Corporation's former CEO.
- Loss on early extinguishment of debt
- Tax Indemnification – Conduent
- Inventory-related impact - exit of certain Production Print manufacturing operations
- Divestitures

Adjusted Operating Income (Loss) and Margin

We calculate and utilize adjusted operating income (loss) and margin measures by adjusting our reported pre-tax income (loss) and margin amounts. In addition to the costs and expenses noted as adjustments for our adjusted earnings measures, adjusted operating income (loss) and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Adjusted Gross Profit and Margin

We calculate non-GAAP gross Profit and Margin by excluding the inventory impact related to the exit of certain Production Print manufacturing operations, included in Cost of services, maintenance and rentals.

Adjusted EBITDA

Earnings before interest, taxes, depreciation and amortization adjusted for additional items, when applicable, given their discrete, unusual or infrequent nature and their impact on comparability of our results for the period to prior periods and future expected trends.

Adjusted Other Expenses, net

Other expenses, net adjusted to exclude non-service retirement-related costs as well as additional items, when applicable, given their discrete, unusual or infrequent nature and their impact on comparability of our results for the period to prior periods and future expected trends.

Constant Currency (CC)

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as "constant currency." This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is not the U.S. dollar. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Free Cash Flow

To better understand trends in our business, we believe that it is helpful to adjust operating cash flows by subtracting amounts related to capital expenditures. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase.

A reconciliation of the estimated three-year target of Adjusted Net Income and EPS, Adjusted Operating Income and Margin, Adjusted EBITDA, and Free Cash Flow to the closest GAAP financial measures, Net Income (loss), EPS, Pre-tax Margin, and Operating Cash Flow, is not provided. GAAP measures for those periods are not available without unreasonable effort, in part because certain incremental costs related to the Reinvention, as well as costs and expenses noted below, are not available at this time.

- Adjusted Net Income and EPS (Restructuring and related costs, net, Amortization of intangible assets, and other discrete, unusual or infrequent items);
- Adjusted Operating Income and Margin (Costs and expenses noted above as adjustments for our Adjusted Net Income and EPS measure, as well as amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses, and other discrete, unusual or infrequent items);
- Adjusted EBITDA (Restructuring and related costs, net, Stock-based compensation, and other discrete, unusual or infrequent items);
- Free Cash Flow (Capital expenditures).

Adjusted Net (Loss) Income and EPS Reconciliation

(in millions, except per share amounts)	FY-22		Q1-23		Q2-23		Q3-23		Q4-23		FY-23		Q1-24		Q2-24	
	Net (Loss) Income	EPS	Net Income	EPS	Net (Loss) Income	EPS	Net Income	EPS	Net (Loss) Income	EPS	Net Income	EPS	Net (Loss) Income	EPS	Net Income	EPS
Reported ⁽¹⁾	\$ (322)	\$ (2.15)	\$ 71	\$ 0.43	\$ (61)	\$ (0.41)	\$ 49	\$ 0.28	\$ (58)	\$ (0.50)	\$ 1	\$ (0.09)	\$ (113)	\$ (0.94)	\$ 18	\$ 0.11
Goodwill Impairment	412		-		-		-		-		-		-		-	
PARC Donation	-		-		132		-		-		132		-		-	
Inventory-related impact - exit of certain Production Print manufacturing operations	-		-		-		-		-		-		36		8	
Restructuring and related costs, net	65		2		23		10		132		167		39		12	
Amortization of intangible assets	42		11		10		12		10		43		10		10	
Divestitures	-		-		-		-		-		-		54		(3)	
Non-service retirement-related costs	(12)		(1)		11		4		5		19		23		26	
Transaction and related costs, net	-		-		-		-		-		-		-		(23)	
Tax indemnification - Conduent	-		-		-		(7)		-		(7)		-		-	
Accelerated Share Vesting	21		-		-		-		-		-		-		-	
Loss (gain) on early extinguishment of debt	5		-		3		-		7		10		(3)		-	
Contract termination costs - product supply	33		-		-		-		-		-		-		-	
PARC donation income tax ⁽²⁾	-		-		(40)		-		-		(40)		-		-	
Income tax on adjustments ⁽²⁾	(55)		(1)		(6)		9		(40)		(38)		(35)		(7)	
Adjusted	\$ 189	\$ 1.12	\$ 82	\$ 0.49	\$ 72	\$ 0.44	\$ 77	\$ 0.46	\$ 56	\$ 0.43	\$ 287	\$ 1.82	\$ 11	\$ 0.06	\$ 41	\$ 0.29
Dividends on preferred stock used in adjusted EPS calculation ⁽³⁾	\$ 14		\$ 4		\$ 3		\$ 4		\$ 3		\$ 14		\$ 4		\$ 3	
Weighted average shares for adjusted EPS ⁽³⁾		157		158		158		159		125		151		125		126

⁽¹⁾ Net (Loss) Income and EPS.

⁽²⁾ Refer to Adjusted Effective Tax Rate Reconciliation.

⁽³⁾ For those periods that include the preferred stock dividend the average shares for the calculations of diluted EPS exclude 7 million shares associated with our Series A convertible preferred stock, as applicable.

Adjusted Effective Tax Rate Reconciliation

(in millions)	Q2-24			Q2-23		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate
Reported ⁽¹⁾	\$ 25	\$ 7	28.0%	\$ (89)	\$ (28)	31.5%
PARC Donation ⁽²⁾	-	-		132	40	
Non-GAAP Adjustments ⁽²⁾	30	7		47	6	
Adjusted ⁽³⁾	<u>\$ 55</u>	<u>\$ 14</u>	<u>25.5%</u>	<u>\$ 90</u>	<u>\$ 18</u>	<u>20.0%</u>

⁽¹⁾ Pre-Tax Income (Loss) and Income Tax expense (benefit).

⁽²⁾ Refer to Adjusted Net Income and EPS reconciliations for details.

⁽³⁾ The tax impact on the Adjusted Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income (Loss) under ASC 740, which employs an annual effective tax rate method to the results.

Adjusted Gross Profit and Margin Reconciliation

(in millions)	Q2-24		Q2-23	
Revenue ⁽¹⁾	\$ 1,578		\$ 1,754	
Cost of revenue ⁽¹⁾	<u>1,058</u>		<u>1,157</u>	
Gross Profit and Margin	520	33.0%	597	34.0%
Adjustment:				
Inventory-related impact - exit of certain Production Print manufacturing operations	8		-	
Adjusted Gross Profit and Margin	<u>\$ 528</u>	33.5%	<u>\$ 597</u>	34.0%

⁽¹⁾ Total revenues and cost of revenue

Adjusted Operating Income and Margin Reconciliation

(in millions)	FY-22			Q1-23			Q2-23			Q3-23			Q4-23			FY-23		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
Reported ⁽¹⁾	\$ (322)	\$7,107		\$ 71	\$1,715		\$ (61)	\$1,754		\$ 49	\$1,652		\$ (58)	\$1,765		\$ 1	\$6,886	
Income tax (benefit) expense	(3)			14			(28)			15			(30)			(29)		
Pre-tax (loss) income	<u>\$ (325)</u>	<u>\$7,107</u>	(4.6%)	<u>\$ 85</u>	<u>\$1,715</u>	5.0%	<u>\$ (89)</u>	<u>\$1,754</u>	(5.1%)	<u>\$ 64</u>	<u>\$1,652</u>	3.9%	<u>\$ (88)</u>	<u>\$1,765</u>	(5.0%)	<u>\$ (28)</u>	<u>\$6,886</u>	(0.4%)
Adjustments:																		
Goodwill impairment	412			-			-			-			-			-		
PARC donation	-			-			132			-			-			132		
Restructuring and related costs, net	65			2			23			10			132			167		
Amortization of intangible assets	42			11			10			12			10			43		
Accelerated Share Vesting	21			-			-			-			-			-		
Other expenses, net	60			20			31			(18)			42			75		
Adjusted	<u>\$ 275</u>	<u>\$7,107</u>	3.9%	<u>\$ 118</u>	<u>\$1,715</u>	6.9%	<u>\$ 107</u>	<u>\$1,754</u>	6.1%	<u>\$ 68</u>	<u>\$1,652</u>	4.1%	<u>\$ 96</u>	<u>\$1,765</u>	5.4%	<u>\$ 389</u>	<u>\$6,886</u>	5.6%

⁽¹⁾ Net (Loss) Income.

Adjusted Operating Income and Margin Reconciliation (continued)

(in millions)	Q1-24			Q2-24		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
Reported ⁽¹⁾	\$ (113)	\$1,502		\$ 18	\$1,578	
Income tax (benefit) expense	(37)			7		
Pre-tax (loss) income	<u>\$ (150)</u>	<u>\$1,502</u>	(10.0%)	<u>\$ 25</u>	<u>\$1,578</u>	1.6%
Adjustments:						
Inventory-related impact - exit of certain Production Print manufacturing operations	36			8		
Restructuring and related costs, net	39			12		
Amortization of intangible assets	10			10		
Divestitures	54			(3)		
Other expenses, net	44			33		
Adjusted	<u>\$ 33</u>	<u>\$1,502</u>	2.2%	<u>\$ 85</u>	<u>\$1,578</u>	5.4%

⁽¹⁾ Net (Loss) Income.

Adjusted EBITDA and Margin Reconciliation

(in millions)	FY-22			Q1-23			Q2-23			Q3-23			Q4-23			FY-23		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
Reported ⁽¹⁾	\$ (322)	\$ 7,107		\$ 71	\$ 1,715		\$ (61)	\$ 1,754		\$ 49	\$ 1,652		\$ (58)	\$ 1,765		\$ 1	\$ 6,886	
Adjustments:																		
Other expenses, net ⁽²⁾	60			20			31			(18)			42			75		
Income tax (benefit) expense	(3)			14			(28)			15			(30)			(29)		
Depreciation and amortization ⁽³⁾	270			64			62			63			62			251		
Goodwill impairment	412			-			-			-			-			-		
EBITDA ⁽⁴⁾⁽⁶⁾	<u>\$ 417</u>	<u>\$ 7,107</u>	5.9%	<u>\$ 169</u>	<u>\$ 1,715</u>	9.9%	<u>\$ 4</u>	<u>\$ 1,754</u>	0.2%	<u>\$ 109</u>	<u>\$ 1,652</u>	6.6%	<u>\$ 16</u>	<u>\$ 1,765</u>	0.9%	<u>\$ 298</u>	<u>\$ 6,886</u>	4.3%
Adjustments:																		
Stock-based compensation	75			14			14			12			14			54		
Restructuring and related costs, net ⁽⁵⁾	65			2			23			10			132			167		
PARC donation	-			-			132			-			-			132		
Divestitures	-			-			-			-			-			-		
Adjusted EBITDA ⁽⁶⁾	<u>\$ 557</u>	<u>\$ 7,107</u>	7.8%	<u>\$ 185</u>	<u>\$ 1,715</u>	10.8%	<u>\$ 173</u>	<u>\$ 1,754</u>	9.9%	<u>\$ 131</u>	<u>\$ 1,652</u>	7.9%	<u>\$ 162</u>	<u>\$ 1,765</u>	9.2%	<u>\$ 651</u>	<u>\$ 6,886</u>	9.5%

⁽¹⁾ Net (Loss) Income

⁽²⁾ Other expenses, net, primarily includes non-financing interest expense and certain other non-operating costs, expenses, gains and losses.

⁽³⁾ Excludes amortization of customer contract costs

⁽⁴⁾ EBITDA includes Financing Revenues and Cost of financing, for all periods presented as these amounts are associated with our XFS segment.

⁽⁵⁾ Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges.

⁽⁶⁾ EBITDA & Adj. EBITDA included above are internal measures used by Management to assess performance. The amounts and related calculation are different than consolidated EBITDA determined as part of our Credit Facility financial maintenance covenants.

Adjusted EBITDA and Margin Reconciliation (continued)

(in millions)	Q1-24			Q2-24		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
Reported ⁽¹⁾	\$ (113)	\$ 1,502		\$ 18	\$ 1,578	
Adjustments:						
Other expenses, net ⁽²⁾	44			33		
Income tax (benefit) expense	(37)			7		
Depreciation and amortization ⁽³⁾	59			59		
EBITDA ⁽⁴⁾⁽⁶⁾	<u>\$ (47)</u>	<u>\$ 1,502</u>	(3.1)%	<u>\$ 117</u>	<u>\$ 1,578</u>	7.4%
Adjustments:						
Stock-based compensation	12			17		
Restructuring and related costs, net ⁽⁵⁾	39			12		
Inventory-related impact - exit of certain Production Print manufacturing operations	36			8		
Divestitures	54			(3)		
Adjusted EBITDA ⁽⁶⁾	<u>\$ 94</u>	<u>\$ 1,502</u>	6.3%	<u>\$ 151</u>	<u>\$ 1,578</u>	9.6%

⁽¹⁾ Net (Loss) Income

⁽²⁾ Other expenses, net, primarily includes non-financing interest expense and certain other non-operating costs, expenses, gains and losses.

⁽³⁾ Excludes amortization of customer contract costs

⁽⁴⁾ EBITDA includes Financing Revenues and Cost of financing, for all periods presented as these amounts are associated with our XFS segment.

⁽⁵⁾ Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges.

⁽⁶⁾ EBITDA & Adj. EBITDA included above are internal measures used by Management to assess performance. The amounts and related calculation are different than consolidated EBITDA determined as part of our Credit Facility financial maintenance covenants.

Free Cash Flow Reconciliation

(in millions)	FY-22	Q1-23	Q2-23	Q3-23	Q4-23	FY-23	Q1-24	Q2-24
Reported⁽¹⁾	\$159	\$78	\$95	\$124	\$389	\$686	(\$79)	\$123
Less: capital expenditures	57	8	7	12	10	37	10	8
Free Cash Flow	<u>\$102</u>	<u>\$70</u>	<u>\$88</u>	<u>\$112</u>	<u>\$379</u>	<u>\$649</u>	<u>(\$89)</u>	<u>\$115</u>
Add: one-time contract termination charge - product supply	41	-	-	-	-	-	-	-
Free Cash Flow - Adjusted	<u>\$143</u>	<u>\$70</u>	<u>\$88</u>	<u>\$112</u>	<u>\$379</u>	<u>\$649</u>	<u>(\$89)</u>	<u>\$115</u>

⁽¹⁾ Net cash provided by (used in) operating activities.

Other Expenses, net Reconciliation

(in millions)	Q2-24	Q2-23
Reported	\$ 33	\$ 31
Less: Non-service retirement-related costs	26	11
Less: Gain on early extinguishment of debt	-	3
Less: Transaction and related costs, net	(23)	
Adjusted	\$ 30	\$ 17

Adjusted Operating Income and Margin – Guidance

(in millions)	FY 2024		
	Profit	Revenue (CC) ^(2, 3)	Margin
Estimated ⁽¹⁾	~(\$10)	~\$6,500	~(0.2)%
Adjustments:			
Restructuring and related costs, net	80		
Amortization of intangible assets	40		
Other expenses, net	315		
Adjusted ⁽⁴⁾	<u>~\$425</u>	<u>~\$6,500</u>	At least 6.5%

⁽¹⁾ Pre-tax income and revenue.

⁽²⁾ Full-year revenue is estimated to decline 5% to 6% in constant currency. Revenue of \$6.5 billion reflects the midpoint of the guidance range.

⁽³⁾ See "Constant Currency" in the Non-GAAP Financial Measures section for a description of constant currency.

⁽⁴⁾ Adjusted pre-tax income reflects the adjusted operating margin guidance of at least 6.5%.

Free Cash Flow – Guidance

(in millions)	FY 2024
Operating Cash Flow⁽¹⁾	At least \$600
Less: capital expenditures	50
Free Cash Flow	At least \$550

(1) Net cash provided by operating activities.

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