

First-Quarter 2015 Earnings Presentation Non-GAAP Financial Measures

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Non-GAAP Financial Measures

“Adjusted Earnings Measures”: To better understand the trends in our business, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of certain items as well as their related income tax effects.

- Net income and Earnings per share (“EPS”)
- Effective tax rate

In 2015 and 2014, we adjusted for the 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. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. 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.

We also calculate and utilize an Operating income and margin earnings measure by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the amortization of intangible assets, operating income and margin also exclude Other expenses, net as well as Restructuring and asset impairment charges. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees pursuant to formal restructuring and workforce reduction plans. Such charges are expected to yield future benefits and savings with respect to our operational performance. 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.

“Constant Currency”: 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.” Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. 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.

Non-GAAP Financial Measures

“Free Cash Flow”: To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. 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. It also is used to measure our yield on market capitalization. A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth in the slide entitled “2015 Guidance”.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods’ results against the corresponding prior periods’ results. 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 consolidated financial statements prepared in accordance with GAAP. Our 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.

Unless otherwise noted, reconciliations of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following slides.

Q1 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Net Income	EPS	Net Income	EPS
Reported⁽¹⁾	\$ 191	\$ 0.16	\$ 266	\$ 0.22
<u>Adjustments:</u>				
Amortization of intangible assets	48	0.05	48	0.04
Adjusted	\$ 239	\$ 0.21	\$ 314	\$ 0.26
Weighted average shares for adjusted EPS ⁽²⁾		1,127		1,225
Fully diluted shares at end of period ⁽³⁾		1,146		

(1) Net Income and EPS from continuing operations attributable to Xerox.

(2) Average shares for the calculation of adjusted EPS for first quarter 2015 exclude 27 million of shares associated with the Series A convertible preferred stock as to include these shares would be anti-dilutive and therefore the related quarterly dividend was included. For first quarter 2014, these shares were included in the adjusted EPS calculation and therefore the related quarterly dividend was excluded.

(3) Represents common shares outstanding at March 31, 2015 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the first quarter 2015.

GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share Guidance	
	Q2 2015	FY 2015
GAAP EPS from Continuing Operations	\$0.17 - \$0.19	\$0.77 - \$0.83
<u>Adjustments:</u>		
Amortization of intangible assets	0.04	0.18
Adjusted EPS	<u>\$0.21 - \$0.23</u>	<u>\$0.95 - \$1.01</u>

Note: GAAP and Adjusted EPS guidance includes anticipated restructuring

Q1 Adjusted Operating Income/Margin

(in millions)	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported pre-tax income⁽¹⁾	\$ 201	\$ 4,469	4.5%	\$ 271	\$ 4,771	5.7%
<u>Adjustments:</u>						
Amortization of intangible assets	77			77		
Xerox restructuring charge	14			26		
Other expenses, net	46			39		
Adjusted Operating Income/Margin	\$ 338	\$ 4,469	7.6%	\$ 413	\$ 4,771	8.7%

(1) Profit and Revenue from continuing operations attributable to Xerox.

Q1 Adjusted Other, net

(in millions)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Other expenses, net - Reported	\$ 46	\$ 39
<u>Adjustments:</u>		
Xerox restructuring charge	14	26
Net income attributable to noncontrolling interests	5	5
Other expenses, net - Adjusted	\$ 65	\$ 70

Q1 Adjusted Effective Tax Rate

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
(in millions)						
Reported⁽¹⁾	\$ 201	\$ 39	19.4%	\$ 271	\$ 42	15.5%
<u>Adjustments:</u>						
Amortization of intangible assets	77	29		77	29	
Adjusted	\$ 278	\$ 68	24.5%	\$ 348	\$ 71	20.4%

(1) Pre-Tax Income and Income Tax Expense from continuing operations attributable to Xerox.

Q1 Services Revenue Breakdown

(in millions)	Three Months Ended March 31,		% Change	CC % Change
	2015	2014		
Business Processing Outsourcing	\$ 1,734	\$ 1,767	(2%)	1%
Document Outsourcing	780	818	(5%)	2%
Total Revenue - Services	\$ 2,514	\$ 2,585	(3%)	1%

Note: The above table has been revised to reflect the reclassification of the ITO business to Discontinued Operations and excludes intercompany revenue.

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