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CORPORATE PARTICIPANTS

Ursula Burns *Xerox - Chairman and CEO*

Leslie Varon *Xerox - Corporate VP, Interim CFO and VP IR*

Jennifer Horsley *Xerox - Director of IR*

Ashok Vemuri *Xerox - CEO Xerox Business Services, LLC*

Jeff Jacobson *Xerox - Corporate EVP and President of Xerox Technology*

Brian Webb-Walsh *Xerox - CFO Xerox Services*

CONFERENCE CALL PARTICIPANTS

George Tong *Piper Jaffray & Co. - Analyst*

Shannon Cross *Cross Research - Analyst*

Tien-Tsin Huang *JPMorgan - Analyst*

Ananda Baruah *Brean Capital, LLC - Analyst*

Brian Essex *Morgan Stanley - Analyst*

Frank Atkins *SunTrust Robinson Humphrey - Analyst*

Matt Cabral *Goldman Sachs - Analyst*

Steve Schneiderman *BMO Capital Markets - Analyst*

Jim Suva *Citigroup - Analyst*

Jamie Friedman *Susquehanna Financial Group - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Xerox Corporation third-quarter 2016 earnings release conference call hosted by Ursula Burns, Chairman of the Board and Chief Executive Officer. She is joined by Leslie Varon, Vice President and Interim Chief Financial Officer.

During this call, Xerox executives will refer to slides that are on the Web at www.xerox.com/investor.

At the request of Xerox Corporation, today's conference call is being recorded. Other recordings and/or rebroadcasting of this call are prohibited without the express permission of Xerox. (Operator Instructions).

During this conference call, Xerox executives will make comments that contain forward-looking statements, which by their nature address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Ms. Burns. Ms. Burns, you may begin.

Ursula Burns - Xerox - Chairman and CEO

Good morning, everyone. Welcome to Xerox's third-quarter 2016 earnings conference call. At the beginning of the year we committed to an ambitious agenda that included delivering on our financial goals for 2015 while creating a new path forward that will make our businesses more agile, focused and competitive.



I am pleased to report that we are on track to meet all of these commitments and that we achieved solid financial results this quarter. Our third-quarter EPS was within our guidance range. Cash flow generation was strong, and we realized solid margins in both segments despite a challenging global market environment. At the same time, our strategic transformation and separation activities have accelerated significantly.

I want to emphasize that these actions are not just about delivering for the quarter or the year. Our strategic transformation program and separation are designed to fundamentally strengthen our businesses and align them closely with the demand of our clients and opportunities in the market. We are embedding productivity and cost efficiency into all areas of our business, which will benefit us for years to come. We're driving operational excellence and innovation to meet our clients' evolving needs. And we are establishing the new companies with talent, business strategies and operating models that will enable them to become more profitable and drive growth over the long-term.

You will hear much more about these initiatives and strategies, structures and financial plans of the two post-separation companies at their investor events in December. But I am pleased to have the leaders of our new companies, Jeff Jacobson and Ashok Vemuri, here with me today to answer questions about results in their respective businesses during the Q&A.

Before we turn to financial results, let me share some highlights of our progress towards separation. With two months to go before we complete the separation, we have passed a number of major milestones in the process. The rating agencies released updates on Xerox's credit ratings, which will continue to be investment-grade. Conduent Incorporated is expected to be a high-noninvestment-grade-rated company following the separation. These ratings are in line with our expectations.

Upon completion of the spin, Conduent will be listed on the New York Stock Exchange, where Xerox will continue to trade. Additionally, we were excited to introduce Conduent's new logo and brand identity. Ashok selected Brian Walsh as the CFO of Conduent. Brian has 20 years of experience in Xerox's finance organization, spanning both operating and corporate roles, and he is currently the CFO of Xerox Services. He is a great fit for the role.

And last week, we announced seven of the nine directors that will serve on Conduent's board, as well as Conduent's named executive officers. With that, the majority of Conduent's leadership team and Board of Directors is in place. We're in the process of filling the remaining two board seats, and we will make those announcements as they become available.

All of this information about Conduent, along with updated information on its expected capitalization, pro forma financials, compensation plans and governance, was included in several amendments to Conduent's Form 10 registration statement.

For Xerox, Jeff is implementing a new, more streamlined operating model, and has identified the operations leaders for the standalone company, building on our strong, well-established infrastructure and executive team. Jeff continues to focus on filling the remaining executive roles and strengthening the bench, including identifying the right, high-quality individual for the CFO role. In the interim, Leslie Varon continues to provide strong leadership to our finance organization and will remain in her current role until we have a new CFO in place.

I should point out that, beyond senior executive appointments, both Jeff and Ashok have put in place the necessary leadership teams for the major corporate functions. We are now just two days away from what we call our soft separation phase. This involves separating our corporate functions, business infrastructure and IT systems into discrete capabilities for each company. It is a test run at operating independently for the new companies that will help us ensure a smooth day-one launch.

In short, we are moving rapidly toward our separation and remain on schedule to complete it by year-end. The benefits of our three-year strategic transformation program also continue to ramp across both businesses and can clearly be seen in our third-quarter performance. We remain on track to deliver \$700 million in annualized savings from productivity and cost initiatives this financial year.

With that, I will move to our third-quarter results. As I said, this was a good quarter. We delivered adjusted earnings of \$0.27 per share, which was within our guidance range and in line with the same period last year. Total revenue of \$4.2 billion showed a 3% decline year over year, or 4% on an adjusted constant currency basis, which excludes the 2015 charge related to our Health Enterprise strategy change.



Operating margin was solid at 9.2%. We saw strong year-over-year margin expansion in our Services segment, driven by gains across our BPO businesses, while Document Technology margins remained strong.

Cash flow from operations was \$370 million, reflecting a \$99 million increase from prior year, and we ended the quarter with a cash balance of \$1.4 billion as a result. Overall, our underlying results demonstrated ongoing progress in our productivity and cost savings initiatives and our ability to generate strong cash flows.

In addition, we continued to innovate, deepen our client relationships and extend our capabilities. Let me highlight a few of our achievements during the quarter.

Starting with our Services segment, which had a number of business wins and high-profile recognitions across the portfolio. We were honored to receive Outstanding Corporate Innovator Award from the Product Development and Management Association for automation, analytics and personalization capabilities.

Another notable recognition was by HfS, which named Xerox Healthcare to its Winner's Circle, the highest-ranking in its report on business services for health care payers and providers. In the Public Sector, the state of Tennessee selected Xerox to provide EMV-enhanced benefit cards to over 120,000 citizens receiving child support, unemployment compensation and state pension payment.

Our Document Outsourcing business secured a 10-year contract worth \$110 million with the USDA for managed print services. We will be installing and supporting up to 16,000 Xerox ConnectKey-enabled printers and multifunction devices at more than 3,000 USDA locations around the world.

Document Outsourcing was also recognized for its market-leading offerings by prominent industry analyst groups including leadership positions in Quocirca's MPS market landscape report and IDC's MarketScape's document workflow services assessment.

Now turning to our Document Technology business, in September we showcased our portfolio of the latest printing technologies, workflow solutions and business development resources at Graph Expo 2016. This is North America's largest graphic arts tradeshow. We also brought a number of innovative products for small and midsize businesses to market as we continued to expand our offerings in this space.

At the corporate level, I am proud to share that Xerox released its 2016 Global Citizenship Report highlighting our approach to social responsibility. Our citizenship efforts continue to be widely recognized. And during the quarter we were named to the Dow Jones Sustainability World Index, the Dow Jones Sustainability Index for North America and Corporate Responsibility Magazine's 100 Best Corporate Citizens.

I will now turn it over to Leslie, who will provide more detail on our third-quarter results and 2016 guidance.

Leslie Varon - Xerox - Corporate VP, Interim CFO and VP IR

Thanks, Ursula, and good morning, everyone. I will start with the earnings slide and cover the rest of the financials as well as our guidance before handing it back to Ursula to wrap up.

Our third-quarter results reflect operational discipline and good progress in key areas that will set the foundation for the two companies post-separation. These include cost and productivity progress from our strategic transformation, resulting in broad-based margin improvement in BPO and solid margins in Document Technology. Overall, Services signings growth, as we renewed 86% in a quarter with high renewal opportunities, reflecting the continued confidence our customers have in us. Strong operating cash generation reflective of the durability of our annuity-based business model.

So, while revenues in both businesses were a bit soft, we delivered overall good results in a somewhat volatile macro environment. Total revenue of \$4.2 billion was down 3% at actual currency and down 4% on an adjusted constant currency basis, including 1 point of negative currency. I will be discussing our results on an adjusted basis when making comparisons against the prior year, as the third quarter 2015 included the \$389 million pre-tax charge, including a revenue reduction of \$116 million related to our Health Enterprise strategy change.

Adjusted gross margin of 31.3% was up 10 basis points year over year, driven by improvements in both segments, partially offset by a greater mix of Services, which structurally has a lower gross margin. There was a modest negative transaction currency impacting quarter three, reflecting the yen's strength against the euro, pound and US dollar, partially mitigated by our hedging and currency risk-sharing with Fuji Xerox. At current rates, we are expecting some additional pressure in quarter four.

Adjusted RD&E was down \$10 million year over year and adjusted SAG was down \$28 million, driven by productivity and cost initiatives, which were partially offset by higher expenses related to prior-year compensation and benefits reduction.

Overall flow-through from our strategic transformation actions resulted in good margins in both segments and a solid 9.2% total Company operating margin. Adjusted other net expense was down \$17 million year over year, driven by lower interest expense.

Equity income of \$39 million in the quarter was down slightly year over year. Our third-quarter adjusted tax rate of 25.3% was 1.8 points below last year and just under our guidance range of 26% to 28%, reflecting the geographic mix of our profit. Bottom line: adjusted earnings of \$0.27 was in the middle of our guidance range and flat year over year.

Turning to Services, we had another quarter of very good operating profit growth, up \$33 million, or 17% year-over-year, as significant margin improvement more than offset modest revenue decline. Services revenue was up 1% at actual currency, down 2% at constant currency and adjusting for the prior-year Health Enterprise charge. Document Outsourcing grew 1% year over year, with growth continuing to be driven by the Xerox Partner Print Services.

BPO declined 4% on an adjusted basis, reflecting our continued focus on profitability, very modest inorganic contribution, as well as forgone revenue associated with the Health Enterprise strategy change. Within BPO, Public Sector revenue grew 3%, as our transportation business continues to perform well and is benefiting from ramping new business. While Commercial Industries and Healthcare declined, driven by headwinds as we prioritized profitability and therefore have stepped away from some unprofitable contracts.

Total signings in the quarter were up 17% year over year and are up 6% for the trailing 12 months. The increase in quarter three was driven by strong renewals, a reflection of both high renewal opportunity as well as a good renewal rate of 86%, confirming the value we provide our customers. Over the past year, we have renewed eight of our 10 top BPO clients.

New business signings have been lower over the past year as we have strengthened our signings criteria, setting the bar higher on price, margins and deal terms.

An important measure of our progress this year is Services margin. This has been an area of intense focus, and the team delivered a quarter three margin of 9.4%, at the high end of our 8% to 9.5% full-year range. This strong performance reflects broad contribution across BPO, a result of both our strategic cost transformation initiatives and increased operating discipline by the team. And as we have said before, Document Outsourcing margin generally is in line with the Document Technology segment margin.

So, key takeaways on Services are consistent with what we said in quarter two. While revenue was a bit soft, Document Outsourcing remains a good performer, and in BPO we are making steady progress improving profitability. There has been a near-term trade-off between revenue growth and margin, but overall it has resulted in strong profit growth and will provide a solid foundation for our businesses as we prepare to separate.

Document Technology delivered strong margins in the face of ongoing revenue pressures within a tough market environment. Revenue was down 9% at actual currency and 7% at constant currency, with equipment down 13% and annuity down 5%. Annuity was an improvement from quarter two, driven by supplies.

Within equipment, trends improved in both Entry and High-end, reflecting new product introductions but, Mid-range lagged due to lower large account sales in the US. When we include Document Outsourcing with Document Technology, revenue declined 5% in the third quarter and is down 4% year to date. Overall, we continue to maintain our equipment revenue market share leadership.

Turning to activity, we delivered good growth across all color activity segments, with particular strength in High-end due in part to the recent drupa trade show. Entry results benefited from better performance in developing markets, where we have lapped economic weakness in some geographies.

Midrange had a mixed quarter, with continued good growth from the iSeries products launched earlier this year, but weakness elsewhere. Document Technology margin of 13.1% was quite strong, up 50 basis points sequentially, reflecting strategic transformation benefit, and was in the middle of our full-year range.

Year over year, margin was down 80 basis points, as gross margin improvements were not enough to offset a higher SAG ratio. The third-quarter 2015 results included materially lower compensation and benefits expense, which we did not expect would repeat. Transaction currency in the quarter was a relatively modest 30-basis-point headwind to margin and at current rates could be about twice that level in quarter four.

So, overall for Document Technology, we continue to manage the impact of revenue decline through ongoing productivity actions, resulting in strong segment margins and cash generation.

And as I wrap up on the segments, I will repeat what I said last quarter. We will manage our strategic transformation focus, and we expect continued good profitability in both Document Technology and in Services as we prepare to separate.

Moving to cash flow, operating cash generation of \$370 million was strong, up \$99 million year over year, and reflects the underlying cash-generative profile of our business model. From a year-over-year perspective, good working capital performance and solid net income more than offset the impact of this year's unique Health Enterprise settlement and separation payments, which were \$39 million and \$21 million, respectively, in the quarter.

We have generated \$522 million of operating cash during the first three quarters of the year, with all 2016 Health Enterprise settlement payments now behind us. Therefore, we enter quarter four, our seasonally strongest cash flow quarter, well-positioned to deliver on our guidance of \$950 million to \$1.2 billion for the full year.

Investing cash flows were a use of \$69 million and included \$73 million spent on CapEx. Cash flow from financing was an \$84 million use and includes \$85 million for preferred and common stock dividend. Our cash balance at the end of the quarter was \$1.4 billion and continues to provide us flexibility as we move into quarter four and prepare for separation.

Turning to our capital structure and capital allocation, we ended quarter three with \$7.4 billion of debt, a level we have been at all year. Applying 7-to-1 leverage to our customer financing assets, our allocated financing debt at the end of the quarter was \$3.8 billion, leaving core debt at \$3.6 billion.

We continue to manage our capital structure to maintain credit metrics consistent with our investment-grade credit rating. On October 11, we filed an amendment to the Conduent Form 10 that included details of its anticipated post-separation capital structure. We indicated that Conduent expected to be capitalized with approximately \$2.4 billion of debt and \$400 million of cash, and to transfer \$2.05 billion of proceeds to Xerox, which we intend to use to reduce Xerox debt.

Consistent with our expectations, Xerox credit ratings remain investment-grade, and we expect that the Conduent capital structure would result in a high non-investment-grade rating.

And to touch on capital allocation, we have paid \$79 million in common stock dividends in quarter three. We completed a \$13 million dealer acquisition earlier this month, consistent with our strategy to expand our US Global Imaging Business. And as we have said previously, as we prepare for our separation later this year, we are not planning to repurchase any shares.

Before I move to guidance on the next slide, I want to mention that Conduent will be filing its third-quarter results in the next few weeks. The Conduent carve-out financials will reflect margin improvement, although not to the same degree as the Services segment, since Conduent results include the student loan business, which resides in our Other segment. That business is in runoff and declined profit year over year as anticipated.

I will now share with you our fourth-quarter and full-year expectations. For quarter four, we expect adjusted earnings in the range of \$0.32 to \$0.35 and GAAP earnings of \$0.11 to \$0.14. For the full year, we continue to expect total revenues to decline 2% to 4% at constant currency. We are narrowing our adjusted earnings guidance range to \$1.11 to \$1.14, which incorporates our fourth-quarter expectations.

In Services, we expect full-year revenue will be flat to down 1% and margin will be at the very high end of the 8% to 9.5% range. We expect Document Technology revenues will be at the lower end of the full-year range, and that margin will be in line with our 12% to 14% expectation.

We expect full-year GAAP earnings of \$0.45 to \$0.48. We continue to anticipate full-year restructuring of about \$300 million, including approximately \$70 million in the fourth quarter. And our estimate of pretax separation costs remains \$175 million to \$200 million and \$40 million to \$50 million in tax-related friction cost.

Turning to cash flow, as I mentioned earlier, our year-to-date performance positions us well for the full year, and we are maintaining our expectations of \$950 million to \$1.2 billion for operating cash flow and \$600 million to \$850 million for free cash flow.

And, finally, our capital allocation expectations remain largely unchanged, although we now expect to spend about \$30 million to \$50 million on acquisition.

So, in summary, despite a somewhat challenging macro backdrop, we are on track and remain committed to delivering our overall revenue, earnings and cash flow guidance.

With that, Ursula, I will turn it back to you.

Ursula Burns - Xerox - Chairman and CEO

Thank you, Leslie. In summary, we are pleased with our results in the third quarter, which were in line with our expectations and driven by our ongoing operational and cost discipline. We are on track to deliver on all of our objectives for the year and establish two companies that will be well-positioned to drive shareholder value over the long-term.

Before we open the line for questions, I would like to note that today has particular significance for Xerox, as this will be our last earnings call as a combined entity. Next time we report earnings, we will be two separate companies, each on their own path to enhance value for our clients, employees, investors and other stakeholders. I look forward to watching both Xerox and Conduent prosper in the future.

We will now open up the line for questions. Jennifer?

Jennifer Horsley - Xerox - Director of IR

Thanks, Ursula. Joining us today are Jeff Jacobson, Head of our Document Technology business and CEO of new Xerox following separation; Ashok Vemuri, Chief Executive Officer Xerox Business Services and CEO of Conduent post-separation; and Brian Webb-Walsh, CFO Xerox Services, who will be CFO of Conduent post-separation.

Before we get to your questions, let me point out that we have several supplemental slides at the end of our deck which provide more financial details to support today's presentation and complement our prepared remarks. For the Q&A, I would ask participants to limit follow-on and multi-part questions so we can get to everyone.



At the end of our Q&A session, I will turn it back to Ursula for closing comments. Operator, please open the line for questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). George Tong, Piper Jaffray.

George Tong - Piper Jaffray & Co. - Analyst

Ashok, first of all, welcome to Xerox. Understanding more details will be provided at the upcoming analyst day, Ashok, can you provide or touch on what your top three strategic priorities are to improve growth and margin performance in the BPO business?

Ashok Vemuri - Xerox - CEO Xerox Business Services, LLC

Yes, sure. George, I think the focus for us continues to be to drive profitable growth. We have demonstrated a very strong margin performance. We continue to invest in the strategic transformation to turn the business so that we are invested and investing in areas that are our traditional strengths. We have certain areas where we would like to continue to drive a higher degree of transformation, especially customer care. But we are pleased with the progress that we have made on the margin front, and I think that will give us the momentum to be able to continue to drive the transformation that we seek in our business.

George Tong - Piper Jaffray & Co. - Analyst

Very helpful. And the earnings release this quarter disclosed that work to implement the health enterprise platform in New York has been elongated and could result in material increases in future costs to complete. Can you help frame or quantify the potential cost overruns and comment on your desire to remain in the government health care business given some of the recent difficulties in ramping contracts in the segment?

Ashok Vemuri - Xerox - CEO Xerox Business Services, LLC

Yes, so, we are working in a very collaborative fashion with the state. The good news is that we have learned our lessons and have gained some experience based on our prior implementations. We are working closely with the state. We are making progress on the implementation. And given that these contracts and implementations are usually long-tenor and have changing requirements and ups and downs, I think we are, given all of that, making very decent progress.

George Tong - Piper Jaffray & Co. - Analyst

Thanks very much.

Jennifer Horsley - Xerox - Director of IR

Operator, next question.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

I have two questions. The first is for Jeff. How do we think about what's going on the underlying business in the printing business? Equipment was down 13% in Doc Tech, and then combined it was -- I don't know what equipment was down, but overall the printing business was down about 5% constant currency when you add in Document Outsourcing.

So, I am just curious how you see the competitive landscape. The yen has obviously moved significantly. Your competitors in Japan are not reporting particularly good numbers. So, what are you seeing out there as you head into 2017? And then I have a question for Ashok.

Jeff Jacobson - *Xerox - Corporate EVP and President of Xerox Technology*

Sure, Shannon. Thanks very much. First, let me address it from a global market and macro standpoint. The global market environment continues to be challenging. As you mentioned, Shannon, there are uncertainties with currencies fluctuating, the yen and the pound. Certainly the uncertainty of the presidential election in the US; Brexit adds a certain degree of uncertainty in the UK and Europe.

But these complexities are obviously what we deal with all the time, and the important thing are the countermeasures. So, what we are doing is we are very aggressive on the productivity measures to drive down our total delivery cost and enhance the operating margins. As you know, what we have done over the last couple of years has been pretty aggressive on productivity, and we are taking that to the next level. We are very focused on innovation and defending our market share, and we are focused on the growth areas.

So, specific to this quarter, what I would say, our revenue was in line and was stable in this challenging market environment. You are correct that we were pressured on the equipment side, and some of that was more on the high end and government bids due to these uncertainties. But we are also pleased with the annuity business driven by supplies. And we were also pleased on the high end. We saw the impact of drupa, which will benefit us for the next couple of quarters. And then at the end of September we obviously had Graph Expo in the US, and we think that will benefit us.

So, overall, in line, good color installs and pressure on more the mono side as we are moving more to color in the macro environment.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you. And then, Ashok, can you talk a bit about how you think about the balance between revenue and margin? Because over the last three years Xerox has bounced between wanting a lot of revenue growth out of BPO, but then that is obviously an impact to margin depending on what you sign, versus at sometimes saying, no, we're going to focus more on margin, and therefore, we saw our revenue declines and impact to billings or bookings.

So, just philosophically, how do you think about it? I know it is a balancing act, but what you put more weight to? Thank you.

Ashok Vemuri - *Xerox - CEO Xerox Business Services, LLC*

Shannon, my philosophy on this is we need profitable growth. Revenue growth is important in order to demonstrate that the investments are in the right place and we are continuing to provide value to our clients.

Margin is an indicator of two things for me. One is the value that our clients perceive that we are bringing to the table and are willing to pay for it. And secondly, it is a report card on management's ability to effectively and efficiently run a business.

So both of these are important for the reasons I just described. And I think even though there is certain degree of elasticity between them, it is important to manage that elasticity in a way that we control on both fronts.

Jennifer Horsley - Xerox - Director of IR

Thanks, Shannon. Operator, next question.

Operator

Tien-tsin Huang, JPMorgan.

Tien-Tsin Huang - JPMorgan - Analyst

Just wanted to dig in here, just on the revenue coming in somewhat soft. I know that profitability came in nicely, but just how much of that do you think is macro versus your profitability focus versus maybe, I guess, distractions from the split of the spend? Can you maybe rank those?

Ursula Burns - Xerox - Chairman and CEO

We will start on the Services side with Ashok and then switch a little bit to the Tech side with Jeff.

Ashok Vemuri - Xerox - CEO Xerox Business Services, LLC

Okay. I think what we have seen in terms of the margin improvement is clearly the flow-through of all of the strategic transformation activities that we've been doing. There is a higher degree of discipline that we have driven. We have balanced some of the revenue reduction because we are being much more selective in terms of the deals we are doing. Deal qualification has improved.

The bars that we have put in terms of pricing and the kind of deals that we want to do, we have raised that. So, margin, as I have said in answer to the previous question, is extremely important for us, but we need to balance that by also driving revenue growth.

Jeff Jacobson - Xerox - Corporate EVP and President of Xerox Technology

Yes, and I think from the Tech standpoint when you see the equipment revenues, that would tend to be impacted more by uncertainties and the macro issues. We are very fortunate from the standpoint of 75% of our business is annuity, which provides a strong foundation, strong base. We're also very fortunate that the vast majority of our contracts are bundled contracts with supplies, which provide stability for us.

So, yes, what we are doing is we're not getting out ahead of our headlights. We are managing our cost and productivity very strongly, and we are looking for the opportunities of growth certainly in Document Outsourcing, Graphic Communications and in some underpenetrated markets for us such as SMB.

Jennifer Horsley - Xerox - Director of IR

Thanks, Tien-tsin. Operator, next question, please.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Congrats on the progress, and looking forward to talking to you guys going forward post the split. Really my question right now, I have one, is really for Jeff and maybe for Ursula on the Xerox side. As we think about where the opportunities for incremental efficiencies could be, as you get post-split, and then as we think about where the opportunity for I guess increased velocity around decision-making could be post-split, how should we be thinking about it? What things have you guys learned about this opportunity so far?

And understanding you probably don't have numbers to give us yet, I guess from a magnitude perspective -- I guess from -- what context in terms of -- how should we think about it in terms of potential to be impactful on the P&L? What is the right context there as well? And that's it. Would love your thoughts there. Thanks.

Jeff Jacobson - *Xerox - Corporate EVP and President of Xerox Technology*

Yes, sure, Ananda. Thanks very much, and certainly we will cover a lot more of the details at the investor conference. But the way we look at it is this -- if you look at the strategic transformation we announced over a three-year period as a combined entity, about \$2.4 billion, and we said that Tech would be about two-thirds of that.

So, the linchpin to our strategy is driving that strategic transformation very hard, and the reason is this. In past years, basically, we have offset the headwinds of annuity, price erosion and done just enough. What we want to do now is take this to a totally another level so that we can reinvest back in the business, bring some back down to the bottom line and invest in some of the growth areas we see certainly in Document Outsourcing, Graphic Communications and being able to invest a little more into Entry. And we will talk a little bit more about that at investor day.

In terms of the strategic transformation, we're driving it very hard. We are looking at things such as supply chain optimization, technical service excellence with remote call assist, remote connectivity, real estate optimization, how we can design our products with more efficiency, and then delayering and simplifying the organization. So, we have a pretty detailed plan. We are tracking very well towards it, and we are pleased with where we are right now.

Ananda Baruah - *Brean Capital, LLC - Analyst*

That's really helpful, Jeff. I have got a quick follow-up to that, if I could. Are those moves, the nonrevenue moves, the core organizational moves you talked to, are those incremental to business-as-usual Xerox? And if they're incremental to business-as-usual Xerox, would you favor the incremental op profit dollars to be dropped to the bottom line or invested back in the growth, or both of those things? Thanks.

Jeff Jacobson - *Xerox - Corporate EVP and President of Xerox Technology*

Yes, one of the things that we message is that there is no business as usual Xerox. So, what we are going to do as we separate our companies, we're going to take all the good things that we bring from Xerox, and there are a lot of great things, but we are going to be a much more simplified, delayed organization. And what we're going to do with the efficiencies we drive in taking strategic transformation to the next level, some will certainly drop to the bottom line and some of it will be invested to improve the revenue trajectory.

Jennifer Horsley - *Xerox - Director of IR*

Thanks, Ananda. Operator, next question, please.

Operator

Brian Essex, Morgan Stanley.

Brian Essex - *Morgan Stanley - Analyst*

Ashok, I was wondering if I could maybe ask you about the Services performance. And now that you have been there for a little while and you are rolling up your sleeves, how much of the lower guidance is due to the more -- the greater degree of selectivity in contrasts? And I notice the margins are now pointed towards the high end. How much of the margin is due to your strategic transformation versus pricing?

Ashok Vemuri - *Xerox - CEO Xerox Business Services, LLC*

Well, I think the margin improvements, Brian, are to a great extent driven by the efficiency that we have seen. And remember that this margin improvement that we have seen comes despite our performance in customer care, and I will elaborate more on that as we go into the investor event in December, et cetera.

But, clearly, where our business is actually clicking in and the ones that we are vesting and amplifying, these are coming in at decent margins and actually much-improved margins than previous periods.

But we still have a ways to go in terms of being able to transform some of our businesses, which are core to us. And as we do that, as we get more selective, we drive a much more predictable and sustainable, scalable business. And we have the foundation for it. I think we would be able to see the performance of that in future quarters.

Brian Essex - *Morgan Stanley - Analyst*

Okay. And maybe as a follow-up, in terms of transforming the business again, as I think back to conversations that we have previously had with Bob, for example, we have talked about centralizing the legacy relatively distributed nature of the legacy ACS business. How far along from previous initiatives are we? And then how much more room is there to go within that organization in terms of increasing its efficiency? If we can just get a sense of your fresh take on the business and what is new in a way that you view it.

Ashok Vemuri - *Xerox - CEO Xerox Business Services, LLC*

Yes, the good news is that this is not something that we have just decided or contemplated to do. This is in progress, so we have taken enough initiatives and more, if you will, on transforming the business.

In some places, we have been effective. We clearly have a business which is very widespread, both from a -- the range of business that we do, the range of clients that we have and the geographical spread. So we need to refocus ourselves on those things that we are really good at, amplify those and invest in them. And continue to drive through the strategic transformation initiative, drive this to success.

But I think the important thing is to also understand that this is not something that is going to happen overnight or in a few quarters. This is a transformation. It is going to transition over a period of time. And we will discuss the appropriate metric as we bridge from where we are to where we really want to be.

Jennifer Horsley - *Xerox - Director of IR*

Thanks, Brian. Operator, next question.

Operator

Frank Atkins, SunTrust.



Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Want to ask, Ashok, what are the major levers that you see you could pull to drive profitability going forward?

Ashok Vemuri - *Xerox - CEO Xerox Business Services, LLC*

Well, I think the number one, of course, is we have to refocus on our delivery model. Customer care is a big part of what we do. Innovation in that, either through robotics and automation, is a key part of what we do.

There are some internal processes in how we run our sales, which we could use some of those similar processes and tools to make us much more effective and efficient. We have to look for businesses that will provide us profitable growth. We have to exploit and monetize all the assets that we have within the Company, and we have a ton of them, which need to be deployed across the board.

We have to look at businesses and segments and geographies, which will help us meet those profitability goals. And in certain situations we also have to sort of run off businesses that we are deliberately taking a view on running off.

Jennifer Horsley - *Xerox - Director of IR*

Thanks, Frank. Operator, next question.

Operator

Matt Cabral, Goldman Sachs.

Matt Cabral - *Goldman Sachs - Analyst*

I wanted to ask about the proposed Conduent balance sheet. I guess on my estimates it looks like the business will start off with north of 3 times gross leverage, which seemed a little bit high relative to where some of the pure-play BPO competitors are and given the meaningful turnaround that this business faces going forward.

So what gives you the confidence that this is the right capital structure for Conduent going forward? And does this level of leverage still give you room to make either the organic or inorganic investments needed to transform this business ahead?

Brian Webb-Walsh - *Xerox - CFO Xerox Services*

Matt, it's Brian. As Ursula and Leslie both mentioned, we anticipate being a high-non-investment-grade rated Company. We believe the leverage that we are starting with is manageable. We intend to improve the leverage over time through operational performance improvement. So, again, we will use cost transformation to create run to make organic investments, and the inorganic investments will be timed as we can afford them, but we believe that it is a manageable starting point.

Matt Cabral - *Goldman Sachs - Analyst*

Thank you. And then --.

Jennifer Horsley - Xerox - Director of IR

Sorry, Matt. Do you have another question?

Matt Cabral - Goldman Sachs - Analyst

Yes, I was just going to ask one for Jeff more on the legacy Xerox business. I guess I wanted to ask around the USDA contract, when that was mentioned in the prepared remarks. And, first of all, if there is any help around the ramp of that contract. And then more just taking a step back and looking at that vertical in particular, around US federal, was that an opportunistic one-off win, or is that an area where there might be a little bit more of a robust pipeline, particularly given the pending Lexmark acquisition that is out there?

Jeff Jacobson - Xerox - Corporate EVP and President of Xerox Technology

Yes, thanks, Matt. Not specific to the Lexmark acquisition, but I think more the USDA win, we are very strong in federal; we are very strong in public sector. Document Outsourcing is a strong and really good business for us. We are the clear market leader, and we continue to see growth and strong margins in that business. It is an area of focused strategic importance to us. And we had a good renewal rate; we continue to. We are very strong in the large enterprise sector. We are always focused on new logos and new customers, and this was a big part of that.

In addition to that, we're going to apply that same expertise, if I can call it that, to the managed print services in the SMB sector as well, where we even have a lot more opportunity for growth there.

Jennifer Horsley - Xerox - Director of IR

Thanks, Matt.

Matt Cabral - Goldman Sachs - Analyst

Thank you.

Jennifer Horsley - Xerox - Director of IR

Thanks, Matt. Operator, next question.

Operator

Keith Bachman, BMO Capital Markets.

Steve Schneiderman - BMO Capital Markets - Analyst

This is Steve Schneiderman pinch hitting for Keith today. Thank you for taking my question. I wanted to direct this to Ashok. As we think about getting an update on the sales cycle, signings for the quarter were up about 15%. And I understand this includes Document Outsourcing. But signings were down by about the same amount, as you talked about trying to be more selective on profitable growth.

My question is where are we in the cycle in terms of churning out these low-profit, potential new deals and being able to -- once again, being able to look at it more steady-state, so get signings growth?



Ashok Vemuri - Xerox - CEO Xerox Business Services, LLC

Yes, from our signings growth perspective we grew about 17%, and the bulk of that actually came from renewals. So that is actually good news. We have eight out of our 10 BPO clients actually renewed with us. So, obviously whatever we are bringing to the party, our clients like and they want to continue to do business with us.

The area of concern, if you will, for us is new deal signings. That is down, and that is an area of focus. I called in my go-to-market team in October. We basically sat down to look at the opportunities in the market. In the spaces that we are strong in, there continues to be headroom for growth, and there are opportunities out there which we will selectively pick to drive profitable growth.

Steve Schneiderman - BMO Capital Markets - Analyst

Okay, is this something you think can be resolved mid-2017, or is that about a little conservative or aggressive from that perspective?

Ashok Vemuri - Xerox - CEO Xerox Business Services, LLC

I think it's difficult to put a timeline on this. But suffice it to say that we are intensely focused on driving revenue and driving new business growth while at the same time continuing to respond to the trust our existing clients have placed in us by bringing innovative solutions to the table.

Steve Schneiderman - BMO Capital Markets - Analyst

Okay.

Jennifer Horsley - Xerox - Director of IR

Thanks, Steve. Operator, next question.

Operator

Jim Suva, Citigroup.

Jim Suva - Citigroup - Analyst

I have two questions, and I will ask them both at the same time. First of all, as you prepare for separation -- and I am sure the ERP or internal IT systems you have are preparing with a lot of effort ahead of that. Are you going to have a need to, say, meaningfully increase your inventory just to make sure that one system doesn't accidentally not talk to another system, or is that inventory management already ironed out?

And then my second question is on the Affordable Care Act and the election, there has been a lot of talk about that and such as well as costs going up on that. Can you help us quantify what that means to Xerox? Or do we know? Or with costs going up, is that bad? Is that good? Enrollees? Is there no impact at all, or how should we think about the election and the Affordable Care Act of what is all going on in the news? Thank you.

Ursula Burns - Xerox - Chairman and CEO

Jim, I should take that. This is Ursula. Even though I haven't spoken a lot today, that's actually a good feeling. But I will take this question.

First one, on the transition and inventory and how we are looking at that, we are entering something -- I talked about this in my prepared remarks, a phase that we call soft separation. And the reason why that is important for investors is that it is a time that we can essentially practice, do a phased implementation of all the complex separation activities and make sure that we don't stumble when we're actually independent. Including things like the inventory management system.

Independent of the soft separation, we would have very little problem with this area, but I think the soft separation makes it such that we could actually double- and triple-check there. So I wouldn't -- we don't -- we are not managing inventory any differently than we normally would at the end of the year. All we are doing is making sure that as we do a separation we don't have any fumbles, which we don't expect.

As far as cost and the -- health care cost, the impact of ACA or any potential changes to ACA on our internal cost in the marketplace, we actually just don't see any. Internal cost -- we will manage our internal health care cost in the most efficient way possible. We are a good health care provider, payer of services for our clients, our customers. That won't change. And as far as the marketplace out there, we are not really seeing a big set of headwinds or a change in the market dynamics because of any potential changes for ACA.

I hope I answered both of your questions.

Jennifer Horsley - Xerox - Director of IR

Thanks, Jim. Operator, I think we have time --.

Jim Suva - Citigroup - Analyst

Thank you very much.

Jennifer Horsley - Xerox - Director of IR

Operator, I think we have time for one last question.

Operator

Jamie Friedman, Susquehanna.

Jamie Friedman - Susquehanna Financial Group - Analyst

I just had a housekeeping question. Leslie, maybe if you could share with us what the time frame is from here. I know you have filed a Form 10 and an amended Form 10. Is there another Form 10 coming? Maybe if you could just update us on the sequence as we go out.

Brian Webb-Walsh - Xerox - CFO Xerox Services

Yes, this is Brian. There will be an amendment to the Form 10 today, actually. And then we anticipate the Form 10 being effective in early November.

Jamie Friedman - Susquehanna Financial Group - Analyst

Okay. And what is the anticipated date of separation?



Brian Webb-Walsh - Xerox - CFO Xerox Services

End of the year is the anticipated date of separation.

Ursula Burns - Xerox - Chairman and CEO

Right. As it has been from the time that we started.

Jamie Friedman - Susquehanna Financial Group - Analyst

Yes, yes, I noticed. All right. Thank you, Brian.

Jennifer Horsley - Xerox - Director of IR

Great. Thanks, Jamie. I am going to pass it back to Ursula for some closing comments.

Ursula Burns - Xerox - Chairman and CEO

Thank you for your questions. In the third quarter we made steady progress against all three of our commitments, delivering on our 2016 financial goals, implementing our strategic transformation and completing the separation by year-end. We remain on track to achieve all three.

We look forward to sharing more details about the two companies at our investor days. And thank you, everyone, for joining the call.

Jennifer Horsley - Xerox - Director of IR

Thanks, Ursula. That concludes our call today. If you have further questions, please contact me or any member of our investor relations team.

Operator

Ladies and gentlemen, thank you again for your participation. You may now disconnect at this time. Everyone have a great day.

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