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Xerox Holdings Corp. (XRX)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

David Beckel

Vice President & Head-Investor Relations, Xerox Holdings Corp.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

Mirlanda Gecaj

Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.

OTHER PARTICIPANTS

Ananda Baruah

Analyst, Loop Capital Markets LLC

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to the Xerox Holding Corporation's (sic) [Xerox Holdings Corporation's] (00:00:04) fourth quarter 2024 earnings conference call. At this time, all participants are in a listen only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program is being recorded.

And now, I'd like to introduce your host for today's program, Mr. David Beckel, Vice President and head of Investor Relations at Xerox Holding Corporation (sic) [Xerox Holdings Corporation] (00:00:36) Please go ahead, sir.

David Beckel

Vice President & Head-Investor Relations, Xerox Holdings Corp.

Good morning, everyone. I'm David Beckel, Vice President and Head of Investor Relations at Xerox Holdings Corporation. Welcome to the Xerox Holdings Corporation fourth quarter 2024 Earnings Release Conference Call Hosted by Steve Bandrowczak, Chief Executive Officer. He's joined by John Bruno, President and Chief Operating Officer; and Mirlanda Gecaj, incoming Chief Financial Officer. At the request of Xerox Holdings Corp, today's conference call is being recorded. Other recording and or rebroadcasting of this call are prohibited without the express permission of Xerox.

During this call, Xerox executives will refer to slides that are available on the Web at www.xerox.com/investor, and will make comments that contain forward-looking statements which, by their nature, address matters that are in the future and uncertain. Actual future financial results may be materially different than those expressed herein. At this time, I'd like to turn the meeting over to Mr. Bandrowczak.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Good morning and thank you for joining our Q4 2024 earnings call. 2024 was an important year for Xerox. We executed a critical phase of our Reinvention journey by implementing widespread structural changes, all in efforts to better position Xerox for sustainable growth in revenue and profit. Changes include the shift from a geographic to a business unit-led operating model, realignment of our sales organization, and the centralization of key business processes within the newly formed Global Business Service (sic) [Global Business Services] (00:02:11) organization.

We now have stronger alignment with the economic buyer of our offerings and improved organizational efficiencies, both of which are critical enablers of our long-term Reinvention goals. Further, a simpler and more resilient operating model put us in a better position to acquire and integrate ITsavvy and Lexmark, transactions which are expected to accelerate our path towards revenue stabilization and double-digit adjusted operating income margins.

We ended the year with improved execution, achieving revised full year revenue and free cash flow guidance. And for the second consecutive quarter, adjusted operating income and margin improved year-over-year despite a decline in total revenue, which we view as a proof point of the intended benefits of a more efficiently run business.

Summarizing results for the year, revenue of \$6.2 billion decreased 9.7% in actual currency and 9.5% in constant currency. Excluding the benefits of around five weeks of ITsavvy results, revenue declined 10.2% in constant currency. Adjusted EPS was \$0.97, \$0.85 lower year-over-year. We generated \$467 million of free cash flow, which was \$182 million lower year-over-year. And adjusted operating income margin of 4.9% was lower year-over-year by 70 basis points.

The decline in full year revenue was affected, in part, by backlog reductions in the previous year; the impacts of geographic and offering simplification; and other intentional reduction of non-core revenue. We expect Reinvention-related reductions in revenue to largely cease after 2025. Core organic revenue, which excludes these effects and the acquisition of ITsavvy, declined around 4% in 2024, reflecting modest market share losses in equipment and lower page volumes, offset by growth in Digital and legacy managed IT services.

Throughout the year, underlining Print market conditions were stable and demand for our products and services remained strong. We attribute the decline in our equipment market share primarily to the pace and scale of business model changes implemented at the beginning of last year. With the benefit of lessons learned from 2024, we are confident our team has the experience and knowledge to once again grow Print equipment share, helping drive an improved trajectory in core Print revenue in 2025.

I commend the team's hard work and resiliency over the past year in driving structural improvements to Xerox's core business and sustainable operating efficiencies amidst widespread organizational change.

Starting with our core business, the organizational redesign streamlined our sales, marketing and distribution teams, allowing a more efficient and effective means of driving positive outcomes for our clients through Xerox's offerings. Sales force productivity is an important leading indicator to our ability to improve revenue trajectory as we continue optimizing our go-to-market operations. We did not experience a large enough increase in sales productivity in 2024 to fully offset reductions in head count. However, the ongoing implementation of productivity initiatives drove a 20% sequential improvement in sales force productivity in Q4, continuing the progress observed earlier in the year.

Greater alignment with our client, a more focused selling approach, and improved client perception resulted in an increase in new business signings year-over-year. And for the year, we once again grew our Digital and legacy managed IT service businesses, key contributors to our planned shift in revenue mix towards markets with higher underlying rates of growth.

We expect the acquisition of ITsavvy and the pending acquisition of Lexmark to further strengthen our core businesses. ITsavvy's enhanced offering should drive increased penetration of Xerox's IT Solutions business across our existing client base, and Lexmark provides an opportunity to strengthen the Print business by diversifying our supply chain, market reach, and exposure to growing markets within Print, such as A4 color. Assuming the second half closing of the Lexmark transaction, we plan to begin realizing the benefits of both transactions in 2025, with greater benefits expected in 2026.

Moving to costs. In 2024, we achieved the targeted \$200 million of gross Reinvention cost savings, and total company operating expenses declined close to 12%, excluding ITsavvy and one-time transaction costs. The successful execution of geographic and offering simplification efforts resulted in a more efficient distribution model in select countries and streamlined Print portfolio, both of which are critical enablers of future cost reductions.

Finally, in 2024, we executed a balanced approach to capital allocations. We used \$467 million of free cash flow generated to pay \$141 million in dividends, repay secured debt obligations as they came due, and acquire ITsavvy. Through a series of debt refinancing transactions. We improved liquidity by extending the maturity of our unsecured debt obligations.

The announced acquisition of Lexmark is expected to result in an immediate reduction in pro forma debt leverage, and free cash flow accretion from that transaction should improve our capacity to reduce debt further. Finally, additional forward flow programs, such as the recently executed deal with De Lage Landen Financial Services Canada Inc., are expected to support free cash flow generations over the next few years.

I'll now move to 2025 priorities. In 2025, we plan to build on the structural changes implemented in the past year to focus on, one, executing the next phase of our Reinvention strategy; two, realizing the benefits associated with the ITsavvy and announced Lexmark acquisition; and three, improving balance sheet health.

Starting with the execution of Reinvention. The focus of Reinvention in 2025 will progress to specific initiatives designed to further optimize our commercial operations and simplify the business, and we'll continue to leverage the GBS organization to design and implement continuous operating efficiencies. John Bruno will describe some of the Reinvention initiatives expected to be implemented this year in more detail.

2025 is an important year for realizing the benefits of the ITsavvy acquisition, which closed last November, and planned acquisition of Lexmark. With the addition of ITsavvy, Xerox's IT Solutions business offers clients a more comprehensive suite of IT infrastructure solutions, better positioning Xerox to target a wider spectrum of clients' IT budgets, a TAM we estimate to be around 10 times the size of Print.

Our IT Solutions business is favorably positioned to take advantage of key market tailwinds, including growth in endpoints, driven by hardware refreshes, window 11 (sic) [Windows 11] (00:10:41) upgrades, and the AI PC; Microsoft Cloud solution adoption; and spend on the modern data center, aided by return-to-work trends. We expect an enhanced IT Solutions offering to drive incremental penetration of these services within our existing client base.

Xerox's IT Solutions will be a separately reported segment beginning Q1 of this year. We will provide updates on client penetration and other KPIs associated with the growing business as the integration is completed, and we are well on our way to realizing the more than \$15 million of expected run rate cost synergies from this acquisition, most of which we intend to realize this year. Separately, we are working diligently to close the Lexmark transaction and begin integration planning in order to capture the more than \$200 million of expected cost synergies over a two-year period.

Finally, balance sheet strength. We continue negotiations to expand our forward flow program to Europe. Finance receivable sales associated with the expansion are expected to generate incremental free cash flow as we reduce our finance receivable portfolio. As noted during the Lexmark acquisition conference call, our primary capital allocation priority is now the repayment of debt, and we plan to return cash to shareholders via an annual dividend of \$0.50 per share.

I'll now hand the call over to John to provide an overview of our operational roadmap as we move forward in our Reinvention journey.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

Thank you, Steve. As Steve noted and I've discussed on previous calls, we've implemented comprehensive and widespread organizational changes last year, aligned to a new operating model which were necessary to streamline decision rights and improve accountability. These changes created headwinds to our performance and we worked through them. However, we never wavered in our resolve to realize the benefits of the targeted improvements to our operating model, organizational structure, and management systems supporting the strategy. We've applied many lessons learned in 2024 as we plan and execute our operational roadmap, as shown on slide 6, and we are encouraged with our progress.

2025 marks the start of the third year of our Reinvention. In the previous two years, we removed structural and business segment complexity, clearing the way for us to implement additional tactical initiatives going forward. This year, we will continue the implementation of more than 100 Reinvention initiatives designed to enhance revenue and profitability. We classified the initiatives across four broad categories: geo simplification, operational simplification, commercial optimization and growth, and the realization of acquisitions benefits.

Starting with geographic simplification. In the past 15 months, we took a targeted approach to optimize the markets we serve. In 2024, we executed transitions of our direct operations in 11 countries to partner-led models. This year, we are slated to complete up to an additional 4, primarily in Europe. This will mark an end to the geographic simplification program as we now work to maximize the profitability of our operations in these regions. We have full confidence our partners in these countries will deliver Xerox products and services in line with our own high standards for client success.

Moving to operational simplification. In 2024, we established a Global Business Services organization to enable technology-driven operating efficiencies and execute a multi-year \$700-million gross cost reduction program. GBS moved quickly throughout the year to build roadmaps for enterprise-wide operational enhancements and implement foundational enablers for immediate and future operating efficiencies. As an example is the restructuring of our commercial arrangements with some of our largest technology and business process outsourcing partners to create greater flexibility and aligned incentives.

In 2025, GBS plans to leverage these foundational enablers, along with new tools, technology and client-centric process flows, to reduce operating expenses while also making it easier to do business both with and within

Xerox. Additionally, this year, GBS will begin implementing a new enterprise-wide technology platform that will both drive and automate the standardization of our business processes, greatly reducing the complexity associated with our legacy infrastructure.

Moving to commercial optimization and growth. This category encapsulates the gain share/mix shift component of our Reinvention strategy. In 2024, we stopped manufacturing of high-end production equipment to focus on Production Print submarkets with the most favorable growth and return profiles, and create a services-led, software-enabled ecosystem designed to enable superior operator productivity. We also began utilizing AI-based pricing tools in select markets to optimize pricing structures across our client base. In 2025, we look to extend these pricing tools across additional geographies and routes to market.

Other initiatives planned for this year seek to optimize service delivery costs and further strengthen go-to-market performance through improved sales coverage and additional productivity tools. We expect improved revenue diversification as we integrate recent acquisitions and expand our investment in and focus on key channel partners. Since establishing our Global Partner Group last year, feedback from this client segment has improved. Accordingly, PartnerScore a third-party gauge of partner sentiment, reached new highs in Q4.

The final operating objective on our roadmap is the realization of acquisition benefits, which I will mention shortly. Collectively, these initiatives are expected to drive a more favorable revenue mix and unlock additional gross cost savings, which are key to driving higher operating margins over time. In 2024, we achieved our targeted gross cost savings of more than \$200 million, and we continue to expect our pipeline of Reinvention initiatives to deliver gross cost savings of more than \$400 million.

Before handing the call to our incoming CFO, Mirlanda Gecaj, I want to spend a minute reflecting on two recently announced acquisitions. ITsavvy, which closed in November; and Lexmark, which was announced last month. Both transactions demonstrate progress against our gain share/mix shift strategy by diversifying Xerox's revenue mix and strengthening our core Print business.

Starting with ITsavvy, to be known as Xerox's IT Solutions. The combined team under the leadership of the acquired company is aggressively working on the integration of both businesses to leverage best practices and drive growth for 2025. In 2024, on a standalone basis, ITsavvy grew revenue double-digits, leveraging a proven business model and a team that has delivered organic and inorganic growth for the past several years. We expect the integration to be complete before the Lexmark transaction closes.

The acquisition of Lexmark was announced a little more than a month ago. The proposed transaction combines two leaders in Print familiar with each other through our current OEM relationship, with complementary sets of operations. Lexmark adds manufacturing capacity for A4 and A3 office product lines, expands our market reach, and provides greater exposure to growing segments within Print. The transaction is expected to be immediately accretive to adjusted EPS and free cash flow, improve our adjusted operating income margin, and lower our pro forma debt leverage ratio from 6.1x today to about 5.4x.

The realization of more than \$200 million of cost synergies is expected to drive more than \$1 share of adjusted EPS accretion and reduce debt leverage by 1 times EBITDA. We are working to close this transaction, and look forward to welcoming Lexmark to the Xerox team.

I'll now hand the call over to Mirlanda, our incoming CFO, who replaces Xavier Heiss at the end of this month as Xavier begins his well-deserved retirement. On a personal note, I'm excited for Mirlanda, but remiss if I didn't say

how much I will miss Xavier, his unique style, and his unwavering commitment to Xerox for over three decades. You will be missed, my friend.

Mirlanda Gecaj

Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.

Thank you, John, and good morning, everyone. I'm honored to join you today on my first earnings call as Xerox's incoming CFO. Before I discuss the results, I want to convey my genuine excitement for the opportunity to lead Xerox's finance organization through the next phase of the company's Reinvention. My transition has been facilitated by the steady leadership of my predecessor, Xavier Heiss, who will officially transfer his responsibilities to me at the end of this month.

In Q4, revenue declined 8.6% in actual currency and 8% in constant currency, in line with our expectations. Excluding the effects of backlog fluctuations and Reinvention actions, equipment revenue trajectory improved quarter-over-quarter, reflecting sequential improvement in sales force productivity, the successful launch of our refreshed PrimeLink product in EMEA, and growth in A4 equipment revenue. Post-sale revenue declines were roughly consistent with the prior quarter, inclusive of the benefits of ITsavvy results since the close of that acquisition on November 20.

Turning to profitability. Adjusted gross margin declined 190 basis points year-over-year as a higher mix of entry A4 equipment, lower Print volumes, and the inclusion of ITsavvy results were somewhat offset by the beneficial impacts of Reinvention savings and favorable currency effects. Adjusted operating margin of 6.4% was 100 basis points higher year-over-year due principally to Reinvention-related cost reductions and lower executive compensation expense, partially offset by the effects of lower revenue and gross profit. A focus on operating discipline drove total operating expenses lower by almost \$90 million year-over-year, or 18% when adjusting for Reinvention and transaction-related costs, as well as the inclusion of ITsavvy. This represents an acceleration of cost reductions from recent periods.

Adjusted other expenses, net, were \$1 million higher year-over-year as changes in various non-operating expenses largely offset one another. Adjusted tax rate of 32.9% compared to 15.2% in the same quarter last year. The increase was largely due to lower non-recurring tax benefits from the release of deferred tax asset valuation allowances and the release of reserves from tax audit settlements.

Adjusted EPS of \$0.36 was \$0.07 lower than the prior year, as the benefits of higher adjusted operating income were more than offset by a higher tax rate and currency effects. GAAP loss per share of \$0.20 improved \$0.30 year-over-year and includes an after-tax intangibles write-off of \$28 million or \$0.22 per share. And after-tax Reinvention and transaction-related costs of \$15 million or \$0.12 per share. The prior year quarter included an after-tax restructuring charge of \$78 million or \$0.62 per share.

Let me now review revenue and cash flow in more detail, starting with revenue. Q4 equipment sales of \$393 million declined 14.2% in actual currency and 13.4% in constant currency. The effects of backlog fluctuations in the prior year and Reinvention actions accounted for close to 900 basis points of the decline. The remainder of the decline reflects unfavorable mix between and within product families and a large production equipment sale in the prior year quarter.

For the second consecutive quarter, total equipment installations increased double-digits. Installations grew 19% year-over-year in the fourth quarter, reflecting growth in entry and mid-range products. Entry equipment is sold at a lower price and margin than the mid-range and high-end categories, but drives high-margin supplies revenue in future periods.

Entry installations grew approximately 28%, outpacing revenue growth due to a higher mix of sales to indirect channel. Mid-range installations grew modestly, but revenue declined due to unfavorable A3 product mix and higher sales through channel partners. Improved mid-range installations will support post-sale trends in future periods. High-end equipment installations and revenue both declined year-over-year, reflecting the ongoing evolution of our Production Print portfolio and high-end offering rationalization actions taken this year.

For the full year, equipment revenue declined around 17% in actual and constant currency. Excluding the impact of backlog fluctuations and Reinvention actions, equipment revenue declined around 6% for the year. In 2025, we expect to grow equipment market share through expanded channel partner participation, the full global rollout of our refreshed PrimeLink product, ongoing sales force productivity enhancements, and early benefits of initiatives designed to double our share of the A4 market.

For Q4, post-sale revenue of \$1.2 billion declined 6.7% in actual currency and 6.1% in constant currency, a pace that is consistent with the prior quarter. Excluding reductions of non-strategic revenue and the effects of Reinvention actions, post-sale revenue declined 2% in actual currency, reflecting lower supplies and page volume, partially offset by the inclusion of ITsavvy revenue since the acquisition closing and growth in Digital and legacy managed IT services.

For the full year, post-sale revenue declined approximately 7% in the actual and constant currency. Excluding reductions in non-strategic revenue and effects of other Reinvention actions, post-sale revenue declined 3% in actual currency, inclusive of benefits from ITsavvy revenue in the period since the acquisition closing. In 2025, we expect organic core post-sale revenue trajectory to improve, driven by AI-enabled pricing benefits, initiatives designed to improve client retention rates, and growth in Digital services and legacy IT Solutions.

Let's now review the cash flow. Free cash flow in the quarter was \$334 million, lower by \$45 million year-over-year. Operating cash flow was \$351 million, \$38 million lower than the prior year quarter due to higher restructuring payments and the timing of executive compensation, interest and tax payments, partially offset by a higher source of cash from working capital and higher cash from finance receivables. Investing activity was a use of cash of \$172 million, compared to \$8 million in the prior year, due primarily to the cash payment for ITsavvy. Financing activity consumed \$122 million this quarter, reflecting \$78 million of net debt repayments, dividends of \$34 million, and \$10 million of other financing cash outflows.

Turning to segments. In Q4, XFS revenue was down around 11% year-over-year due to lower finance income and other fee revenue associated with a decline in our finance receivable balance, partially offset by higher commission from the sale of finance receivable assets, in line with our forward flow strategy. XFS' Finance receivable balance declined around 12% sequentially and around 30% year-over-year in actual currency, mainly due to XFS' strategy to return its focus to captive-only financing solutions. Q4 XFS segment profit increased by \$10 million as lower operating expenses more than offset reductions in gross profit associated with lower revenue.

Print and Other revenue fell 9%, and segment profit decreased by 2% as gross profit declines associated with the Print and Other segment exceeded the reduction in direct and indirect operating expenses allocated to this segment.

Focusing on capital structure. We ended Q4 with \$631 million of cash, cash equivalent and restricted cash. Around \$1.7 billion of the remaining \$3.4 billion of outstanding debt supports our finance assets, with remaining core debt of \$1.7 billion attributable to the non-financing business. Total debt increased sequentially due to the

addition of a \$220 million seller note associated with the ITsavvy acquisition, partially offset by secured debt repayments. Core debt increased by a larger amount due to a \$250 million sequential decline in total finance assets.

I'll now provide an update on Reinvention savings. In 2024, we realized more than \$200 million of gross cost savings, bringing the combined total to-date to more than \$300 million. We continue to maintain a pipeline of around \$400 million of gross cost savings, which includes close to \$175 million of savings relating to actions already implemented or expected to be implemented in the near-term. We expect to realize more than \$100 million of gross cost savings associated with Reinvention-related actions in 2025.

Finally, I will address guidance, which does not include any impacts associated with the pending acquisition of Lexmark. We expect revenue in 2025 to grow low-single digit in constant currency, inclusive of a full year of revenue associated with the recent ITsavvy acquisition. Revenue guidance includes around 400 basis points of headwinds from ongoing Reinvention actions, including the flow through of geographic simplification effects, reductions in high-end equipment sales associated with our decision to end the manufacturing of high-end Production Print equipment, the sale of our European paper business, and the continued reduction of XFS revenue associated with a declining finance receivable portfolio.

Organic core revenue is expected to decline, but at a lower rate than we experienced in 2024. An improved core revenue trajectory is expected to be driven by stable Print market demand and equipment market share gains, as well as higher rates of growth from Digital services and legacy IT Solutions. In 2025, adjusted operating income margin is expected to be at least 5%. The slight year-over-year improvement reflects incremental gross cost savings, partially offset by higher product costs.

Finally, we expect full year free cash flow to be in a range of \$350 million to \$400 million. The year-over-year decline in free cash flow is primarily attributable to reduction in finance receivable forward flow benefits, as expected, partially offset by improved adjusted operating income and working capital. As a reminder, Q1 is seasonally our lowest quarter for revenue and adjusted operating income. In line with our guidance for the year, we expect only modest year-over-year growth in revenue and adjusted operating income margin in Q1.

In summary, we ended the year with stronger execution. A slate of Reinvention actions aimed at improving revenue trajectory and profitability and an enhanced IT Solutions business give us confidence in our outlook for 2025. We'll now open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. And our first question for today comes from the line of Ananda Baruah from Loop Capital. Your question, please.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

Yeah, good morning. Thanks for taking the questions, really appreciate it. Mirlanda, welcome, looking forward to working with you. And Xavier, if you're out there listening, we'll miss working with you, really enjoyed it. Yeah, so, I guess, Steve and maybe John, just real quick on ITsavvy. Can you sort of – you've got – look, you've walked through a lot of the details on the last couple of calls, including this call in greater detail. Can you describe to us how they operate? And like, I went to their website and – are they an IT solutions company with deep relationships with IT vendors? Are they a – like a systems integrator, VAR type as well? As just being on the website, looks like they sell – you guys sell everything from rack servers to networking, with relationships across all verticals, all end customer verticals. So, I guess, just a bit more of a description there would be super helpful for me. Appreciate it.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah. Great, Ananda. Thank you. I'll start and I'll turn it over to John for enhancement on the conversation. So, Think of ITsavvy as a VAR with tremendous relationship with some of the largest suppliers that can address 90-plus percent of the total addressable spend within a CIO's budget. With that, we then added services around that.

So, if you think about endpoints that are now AI-enabled, how do we put services and wrap services around that, tie that into infrastructure? As companies are building out infrastructure for AI capacity, we have the ability to build and help them along that journey, the ability to take workloads and move it into the cloud, transition on Microsoft to version 11, and what Microsoft is trying to drive their clients to the cloud and their utilization of things like AI. And so, we have the ability to wrap services around that, help our clients along that journey. And it's both a combination of, obviously, great relationship with our partners. And you saw some of the partners on our website, but more importantly, adding value-added services around that so we can help our clients in the journey.

Many of our clients today, and we've talked about this before, especially in the mid-market, don't have the expertise and the capabilities to put these things together to create end solutions that drive outcomes; and that's really where we stand. We have the ability to drive end outcomes and implement these solutions so that we can help companies, and specifically in verticals, whether it's in education, whether it's in law firms, whether it's in hospitals, we have the ability to take these technologies, wrap it together, put it inside of either verticals or horizontal processes to drive outcomes. And that's really where we have a tremendous differentiator. As we go forward, we have the ability to be that value-added reseller and actually add value and services around some of these great technologies.

John, anything else you want to add?

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

A

I think the only thing I would add is VAR is probably a term that's very well used. But as it relates to ITsavvy, I would call them – I'd put the emphasis on the [ph] VA (00:35:11), and a lot less emphasis on the reseller part. The reseller part is an important component. We were very attracted to their model because their flow through and equipment margins are quite good because of the – not only what they do on the installation and the maintenance and the lifecycle, but on the reclamation and on the turnovers.

They do product refreshes, but their business differentiated from a lot of others in this space – many of them are private companies, a lot of regional players – because of their value-added services and the ones that Steve pointed out. And with such movement moving into the cloud-hosted space for all these IT-related activities, from provisioning of laptops to the [ph] refresh assist (00:35:47) to the emergence of AI laptops to all the stuff that you've heard us describe, they're very well-positioned in this and have capabilities largely in North America, somewhere in Western Europe.

And if you add to that the capabilities that we did, we essentially double that business. And it's a reverse into an already existing operating model that they've demonstrated over the last several years that they can show a consistent growth both organically and inorganically. So, there's a number of very large SI, systems integrator, VARs out there, but most of them have very large businesses and a lot of emphasis on the reseller part of the program.

ITsavvy has great comparable reseller contracts with discounts; add them to ours, takes us to much higher levels of platinum, diamond, et cetera, which will help margin expansion purely just on the IT hardware space, but it also allows them to cross the threshold with all of our captive clients with a set of offers that are value-added that will differentiate them. We've been talking about that all year now, and as you know, we we're pretty excited to have the opportunity to add these guys to the company.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Q

And so, just a quick follow-up there, John and Steve, appreciate it. What's a useful way to think about ITsavvy's kind of revenue growth or amplification potential now with the Xerox [ph] fab gain (00:37:08)?

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

Yeah, I think it's a couple of things. First of all, the industry that they're in, right, high-single digits growth over the next three to five years, the CAGR is there and you can take a look at what are the big trends, whether it's around endpoints, whether it's around infrastructure, movement to the cloud – all of those are big TAMs that are growing over the next three years to five years. But more importantly, think about the 200-plus-thousand medium SMB clients that we have today that we can now take ITsavvy and put them through those clients and those infrastructure. I've said this before, if you take a look at our addressable market with the existing Xerox clients, we now have the ability to look at the full IT spend and full IT stack. So, our execution and bringing IT Solutions into existing Xerox relationships is very significant in terms of the ability to grow.

It also, I think, will help with helping stabilize our core business. If you think about our core business, Print is really with the real estate team, with the procurement team. We now have conversations at the CIO level in very strategic different ways so we can wrap that and we could put that in there. The other thing is, ITsavvy has not been selling Print solutions and managed Print solutions. So, we can take Xerox solutions and bring it into ITsavvy customer base. So, it's all about execution, Ananda. It's all about getting my sales team, and by the way, my partners, right, we have thousands of partners that want to be able to grow in the IT Solutions space. We have to enable them, train them, and bring them these solutions so that they can grow as well.

Ananda Baruah

Analyst, Loop Capital Markets LLC



Awesome, guys. Super helpful. Thank you.

Operator: Thank you. And our next question comes from the line of Samik Chatterjee from JPMorgan. Your question, please.

Samik Chatterjee

Analyst, JPMorgan Securities LLC



Hi. Thank you for taking my questions. And Xavier, congrats on the retirement. Mirlanda, we look forward to working with you. Maybe if I can start with Project Reinvention, and I think if I get the numbers right, you're seeing about 400 basis points of headwind in 2025 from the effects of Project Reinvention. That's comparable to what we saw in 2024 on the revenue line.

Maybe just sort of outline for us what the spillover effect largely is, and [ph] whether it (00:39:23) seems like most of the actions you took in 2024 have that – have a spillover effect in 2025 revenue. Is that then fair to assume that we'll sort of continue to see this headwind continue into 2026 as well? And then, the – is there sort of an expansion of Project Reinvention, given the pending Lexmark acquisition? And I have a quick follow-up there. Thank you.

Mirlanda Gecaj

Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.



Yeah. Thank you, Samik. So, our headwinds that we are describing of 400 basis points in 2025, they are continuations of actions that we took in prior years. What we are looking for in 2025 as it relates to Reinvention, it's more tactical. We have kind of finished the deep organizational changes that we saw in 2023 and 2024. So, yeah, that's the difference in what we see in 2025. And we'll continue to implement the Reinvention actions to deliver our gross cost savings of about \$400 million that we still have to deliver in the next couple of years. As it relates to Lexmark and Reinvention, our plan is to continue to deliver on Reinvention. And then, once we close Lexmark, we'll reassess. We will see what we need to do from a synergy perspective. But those two, just see them for now as separate and us continuing full speed with Reinvention.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.



Yeah. And I would just add that, to answer your question specifically on 2026, no, there's not a carryover that you should forecast or look as a headwind. The foundational elements that Mirlanda pointed out are correct. The geo simplification and the product simplification that we did in the production side of our business are the ones are behind us, [ph] so are the OD model (00:41:03) initiatives. We still have more work to do on the technology platform upgrades and all the process optimization. But think about that as all the simplification necessary to make acquisition integration easier to attain and to drive the type of business that we want moving forward as we do our gain share/mix shift strategy of more A4 color, more Print, more Lexmark integration, more IT Solutions. So, first year and a half going behind us at this point as we exit kind of middle of this year is the foundational elements. They'll carry through this year, but we do not expect it into 2026, and we will handle the standalone integration of Lexmark separately. The \$200 million is the standalone goal we have on cost integration.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.



One of the things I'd ask you to think about, we get asked the question around ITsavvy integration, now Lexmark and Reinvention, how do you think about that in terms of is it too much? So, a couple of key points. ITsavvy will be largely done before the Lexmark acquisition closes, right. So, that integration will be done, behind us, will be running. The Reinvention, with two and a half years into it, right. So, we talked about a three-year journey. We're at the tail end of implementing those programs and running that out. Whatever's left, we will put that as part of the overall Lexmark integration. So, think about ITsavvy done. Good portion, if not three-quarters of the Reinvention done. We'll wrap that and roll that into the overall Lexmark integration. So, we don't see it as trying to run with three different balls. Lexmark will be really all-encompassing in terms of overall program. We'll roll Reinvention into that and we'll have one integration strategy as we go forward into 2026.

Samik Chatterjee*Analyst, JPMorgan Securities LLC*

Q

Got it. Got it. And quickly for my follow-up, maybe just to walk through the puts and takes on the free cash flow guidance, particularly the step down from \$460 million for this year to a \$375 million – sorry, [ph] \$464 million (00:42:57) in 2024 to \$375 million at the midpoint in 2025 on what largely looks like you're guiding to sort of similar operating profit. Can you just walk me through the drivers, is it less forward flow [ph] or – of the (00:43:08) underlying business sort of cash flow generation?

Mirlanda Gecaj*Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.*

A

Yeah. So, thank you. So, 2025 free cash flow, as you mentioned, we're guiding more, and it's primarily driven, when you think about lower inflow from the sale of finance receivable, and this is planned and this is in accordance with what we have disclosed and where we see our finance receivable assets will be at the end of 2026. But it also will be impacted by higher working capital and higher operating net income. So, net-net really it's lower finance receivable assets inflow and improvements on operating margin and working capital for 2025.

Samik Chatterjee*Analyst, JPMorgan Securities LLC*

Q

Got it. Got it. Thank you. Thanks for taking my questions.

Operator: Thank you. And our next question comes from the line of Erik Woodring from Morgan Stanley. Your question, please.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Q

Super. Thanks so much for taking my question, guys. And echo the sentiment from Samik and the rest of the team on Xavier's retirement; and Mirlanda, looking forward to working with you.

Steve or Mirlanda, either one of you guys, I'll target this question to, and it's just around gross margins. The gross margins have been on a fairly consistent downward trajectory. You're obviously taking out a lot of costs as you go through Reinvention. But even with the lower share count, you still faced some EPS pressure, there's some puts and takes, obviously, around [indiscernible] (00:44:41) and tax, right? But can you maybe just walk us through the actions you're taking to stabilize gross margins and really how we should be thinking about the trajectory of total company gross margins in 2025 before accounting for anything related to Lexmark? And then, I have a quick follow-up. Thank you.

Mirlanda Gecaj

Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.

A

Yes. So, thank you. So, in 2024, as I mentioned, in Q4 specifically, gross margin did decline 190 basis points and it was primarily driven by mix of our A4 equipment, we have some low Print volumes and inclusion of ITsavvy. All of these were partially offset by benefits of Reinvention and currency. Looking into 2025, we expect gross margin to be lower than 2024, and that is primarily driven by inclusion of ITsavvy. ITsavvy has a lower gross margin than our Print business, as well as some product increases. We will and plan to offset those with benefits from technology-enabled pricing and offer productivity initiatives.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

A

So, the other thing to add on to that is we had very good growth in our A4 business in Q4. And A4 is a growing segment that is a lower upfront gross margin, but the supplies and the tail of that is high-margin business, right. So, we won't see the effects of that until we start to see second, third year of the actual supplies coming in. But an important indicator for us as we're trying to really grow that A4 business, actually double the share next year and growing that, we had good solid growth in Q4 and we're seeing significant unit expansion which will pay off in future years.

John G. Bruno

Chief Operating Officer, President & Director, Xerox Holdings Corp.

A

And my last point that I'd say is we just – we're continuing to be focused on operating margin increase. Our profitability and our free cash flow generation, these are the things necessary as we do that and deleverage the company as we do the acquisition integrations. [ph] Just the (00:46:32) EPS and the associated adjustments of EPS are a different ballgame. The operating efficiency purely comes down to mix shift in the gain share strategy as we've articulated. That's where you can see every bit of the performance of the business and the benefits of the work we're doing.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Super. Thank you, guys. Really helpful with that detail. And then, maybe I just want to double click on Samik's question about free cash flow. If we kind of go back to the early days of these original forward flow announcements, then think you had alluded to \$400 million of cash flow tailwinds per year for four consecutive years. I think you've done something to the effect of almost \$1.3 billion thus far. So, pull that forward a little bit, can you maybe just talk about the kind of future of this program and how we should be thinking about the contribution from this program, not just in 2025, but beyond? And really, what I'm trying to get to is, is there a point at which we should be thinking this program really comes to a halt and just focusing on your core free cash flow? Just trying to maybe understand the timing of that or any factors that would help us – help impact that. And that's it for me. Thanks so much.

Mirlanda Gecaj

Chief Accounting Officer, Vice President & Incoming Chief Financial Officer, Xerox Holdings Corp.

A

Yeah. Thanks, Erik. And you are correct, right. We – this program, four-year program, we expect our finance receivable balance to be around \$1 billion. We started with \$3.6 billion. As you mentioned, we have done about close to \$1.3 billion. And right now, we have about \$800 million of finance receivables that we think we will sell over the next two years. So, when I think about sort of trailing 12 months basis, we sold about 44% of total originations to our HPS partner. And that kind of like – when you look at that rate and the next two years, what's to come, we will review that balance, we will review our plans and we will be able to or if we could sell more finance

receivables and benefit our free cash flow. But again, it's a four-year program. We still have finance receivable that are planned to go through the forward flow program in the next two years, 2025, 2026.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC



Okay. Super helpful. Thank you so much, guys.

Operator: Thank you. And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Mr. Bandrowczak for any further remarks.

Steven John Bandrowczak

Chief Executive Officer & Director, Xerox Holdings Corp.

Thank you. Recapping today's call, we ended the year with a solid execution and see steady progress from Reinvention actions taken to-date. In 2025, we expect these actions, new initiatives focused on further optimization of our business and benefits of acquisitions to drive growth in revenue and adjusted operating income.

I'd also like to wish Xavier Heiss, our outgoing CFO, the best of luck in his retirement. Xavier has been an impactful leader at Xerox for more than 30 years, he is a champion of change, rigorously dedicated to operating excellence, and most importantly, a friend, a mentor to hundreds if not thousands of current and former Xerox employees. On behalf of everyone at Xerox during his tenure, we thank you for your service and leadership; and my personal thanks to Xavier for helping me as I took the CEO role at the company, helping me get comfortable and get me up to speed and really helping me along the journey. And I'm going to miss him greatly as many, many of my colleagues will as well.

Thank you for today's call. Have a great day.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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