Non-GAAP Financial Measures

Q2 2023 Results

July 25, 2023

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Non-GAAP Financial Measures

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

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

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

Adjusted Earnings Measures
• Adjusted Net Income (Loss) and Earnings per share (EPS)
• Adjusted Effective Tax Rate

The above measures were adjusted for the following items:

- Restructuring and related costs, net: Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.

- Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods

- Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.

- Discrete, unusual or infrequent items: We exclude these item(s), when applicable, given their discrete, unusual or infrequent nature and their impact on the comparability of our results for the period to prior periods and future expected trends.

  - PARC donation
  - Non-Cash Goodwill impairment charge
  - Contract termination costs – product supply
  - Accelerated share vesting - stock compensation expense associated with the accelerated vesting of all outstanding equity awards, according to the terms of the award agreement, in connection with the passing of Xerox Holding's former CEO.
  - Loss on early extinguishment of debt

Non-GAAP Financial Measures

Adjusted Operating Income (Loss) and Margin

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

Constant Currency (CC)

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

Free Cash Flow

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

Adjusted Net Income and EPS Reconciliation

	Three Months Ended June 30, 2023		Three Months Ended June 30, 2022	
(in millions, except per share amounts)	Net (Loss) Income	Diluted EPS	Net (Loss) Income	Diluted EPS
Reported [1]	$ (61)	**$ (0.41)**	$ (4)	**$ (0.05)**
Adjustments:				
PARC donation	132		-	
Restructuring and related costs, net	23		1	
Amortization of intangible assets	10		10	
Non-service retirement-related costs	11		(4)	
Contract termination cost - product supply	-		-	
Accelerated share vesting	-		21	
Loss on early extinguishment of debt	3		4	
PARC donation income tax [2]	(40)		-	
Income tax on adjustments (excuding PARC donation) [2]	(6)		(4)	
Adjusted	$ 72	**$ 0.44**	$ 24	**$ 0.13**
Dividends on preferred stock used in adjusted EPS calculation [3]		$ 3		$ 3
Weighted average shares for adjusted EPS [3]		158		156
Fully diluted shares at end of period [4]		158		

(1) Net (Loss) and EPS attributable to Xerox Holdings. Second quarter 2023 Net (Loss) and EPS includes the after-tax PARC donation charge of $92 million ($132 million pre-tax), or $0.58 per share

(2) Refer to Adjusted Effective Tax Rate reconciliation.

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

(4) Reflects common shares outstanding at June 30, 2023 plus potential dilutive common shares used for the calculation of adjusted diluted EPS for the second quarter. Excludes shares associated with our Series A convertible preferred stock, all of which were anti-dilutive.

Adjusted Effective Tax Rate Reconciliation

	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022		
(in millions)	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax Expense	Effective Tax Rate
Reported[1]	**$ (89)**	**$ (28)**	**31.5%**	**$ (5)**	**$ 1**	**(20.0%)**
PARC donation[2]	132	40		-	-	
Non-GAAP Adjustments[2]	47	6		32	4	
Adjusted [3]	**$ 90**	**$ 18**	**20.0%**	**$ 27**	**$ 5**	**18.5%**

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

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

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

Adjusted Operating Income and Margin Reconciliation

	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022		
(in millions)	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
Reported [(1)]	$ (89)	$ 1,754	(5.1)%	$ (5)	$ 1,747	(0.3)%
Adjustments:						
Restructuring and related costs, net	23			1		
Amortization of intangible assets	10			10		
PARC donation	132			-		
Accelerated share vesting	-			21		
Other expenses, net	31			8		
Adjusted	$ 107	$ 1,754	6.1%	$ 35	$ 1,747	2.0%

(1) Pre-tax (loss)

Free Cash Flow Reconciliation

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Reported [1]	$ 95	$ (85)
Less: capital expenditures	7	13
Free Cash Flow	$ 88	$ (98)

(1) Net cash provided by operating activities.

Other Expenses, net Reconciliation

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Reported	$ 31	$ 8
Less: non-service retirement-related costs	11	(4)
Less: Loss on early extinguishment of debt	3	4
Adjusted	**$ 17**	**$ 8**

Net Income (Loss) and EPS Reconciliation - Historical

	Year Ended December 31, 2021		Q1-22		Q2-22		Q3-22		Q4-22		Year Ended December 31, 2022		Q1-23	
(in millions, except per share amounts)	Net (Loss) Income	EPS	Net Loss	EPS	Net (Loss) Income	EPS	Net (Loss) Income	EPS	Net Income	EPS	Net (Loss) Income	EPS	Net Income	EPS
Reported [1]	$ (455)	$ (2.56)	$ (56)	$ (0.38)	$ (4)	$ (0.05)	$ (383)	$ (2.48)	$ 121	$ 0.74	$ (322)	$ (2.15)	$ 71	$ 0.43
Goodwill Impairment [2]	781		-		-		412		-		412		-	
Restructuring and related costs, net	38		18		1		22		24		65		2	
Amortization of intangible assets	55		11		10		10		11		42		11	
Non-service retirement-related costs	(89)		(7)		(4)		(7)		6		(12)		(1)	
CEO Accelerated Share Vesting	-		-		21		-		-		21		-	
Loss on early extinguishment of debt	-		-		4		-		1		5		-	
Contract termination costs [3]	-		33		-		-		-		33		-	
Income tax on adjustments	(37)		(13)		(4)		(21)		(17)		(55)		(1)	
Adjusted	$ 293	$ 1.51	$ (14)	$ (0.12)	$ 24	$ 0.13	$ 33	$ 0.19	$ 146	$ 0.89	$ 189	$ 1.12	$ 82	$ 0.49
Dividends on preferred stock used in adjusted EPS calculation[4]		$ 14		$ 4		$ 3		$ 4		$ -		$ 14		$ 4
Weighted average shares for adjusted EPS [4]		185		156		156		157		165		157		158

[1] *Net (Loss) Income and EPS attributable to Xerox Holdings.*

[2] *Full-year 2021 Net (loss) and EPS include an after-tax non-cash goodwill impairment charge of $750 million ($781 million pre-tax) or 4.08 per share. Third quarter and full-year 2022 Net (loss) and EPS include a after-tax non-cash goodwill impairment charge of $395 million ($412 million pre-tax), or $2.54 per share, respectively.*

[3] *Reflects contract termination costs - termination of a product supply agreement in the first quarter of 2022.*

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

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Adjusted Operating Income (Loss) and Margin Reconciliation - Historical

(in millions)	Year Ended December 31, 2021 (Loss) Profit	Year Ended December 31, 2021 Revenue	Year Ended December 31, 2021 Margin	Q1-22 Loss	Q1-22 Revenue	Q1-22 Margin	Q2-22 (Loss) Profit	Q2-22 Revenue	Q2-22 Margin	Q3-22 (Loss) Profit	Q3-22 Revenue	Q3-22 Margin	Q4-22 (Loss) Profit	Q4-22 Revenue	Q4-22 Margin	Year Ended December 31, 2022 (Loss) Profit	Year Ended December 31, 2022 Revenue	Year Ended December 31, 2022 Margin	Q1-23 Profit	Q1-23 Revenue	Q1-23 Margin
Reported [1]	$ (475)	$ 7,038	(6.7%)	$ (89)	$ 1,668	(5.3%)	$ (5)	$ 1,747	(0.3%)	$ (380)	$ 1,751	(21.7%)	$ 146	$ 1,941	7.5%	$ (328)	$ 7,107	(4.6%)	$ 85	$ 1,715	5.0%
Adjustments:																					
Goodwill impairment	781			-			-			412			-			412			-		
Restructuring and related costs, net	38			18			1			22			24			65			2		
Amortization of intangible assets	55			11			10			10			11			42			11		
CEO Accelerated Share Vesting	-			-			21			-			-			21			-		
Other expenses, net	(24)			57			8			1			(3)			63			20		
Adjusted	$ 375	$ 7,038	5.3%	$ (3)	$ 1,668	(0.2%)	$ 35	$ 1,747	2.0%	$ 65	$ 1,751	3.7%	$ 178	$ 1,941	9.2%	$ 275	$ 7,107	3.9%	$ 118	$ 1,715	6.9%

[1] *Pre-Tax (Loss) Income.*

Free Cash Flow Reconciliation – Historical

(in millions)	Year Ended December 31, 2021	Q1-22	Q2-22	Q3-22	Q4-22	Year Ended December 31, 2022	Q1-23
Reported[1]	$629	$66	($85)	($8)	$186	$159	$78
Less: capital expenditures	68	16	13	10	18	57	8
Free Cash Flow	$561	$50	($98)	($18)	$168	$102	$70
Add: one-time contract termination charge - product supply	-	-	41	-	-	41	-
Free Cash Flow - Adjusted	$561	$50	($57)	($18)	$168	$143	$70

(1) *Net cash provided by operating activities.*

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Adjusted Operating Income and Margin – Guidance

	FY 2023		
(in millions)	**Profit**	**Revenue (CC)** [2, 3]	**Margin**
Estimated [1]	~$125	~$7,100	~1.8%
Adjustments:			
PARC donation	132		
Restructuring and related costs, net	75		
Amortization of intangible assets	40		
Other expenses, net	40		
Adjusted [4]	~$410	~$7,100	5.5-6.0%

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[1] *Pre-tax income and revenue.*

[2] *Full-year revenue is estimated to be flat to down low-single-digits, in constant currency. Revenue of $7.1 billion reflects the high end of the guidance range.*

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

[4] *Adjusted pre-tax income reflects the mid-point of the adjusted operating margin guidance range.*

Free Cash Flow – Guidance

(in millions)	FY 2023
Operating Cash Flow[(1)]	At least $650
Less: capital expenditures	50
Free Cash Flow	At least $600

(1)Net cash provided by operating activities.