

— PARTICIPANTS

Corporate Participants

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— MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Xerox Holdings Corporation First Quarter 2020 Earnings Release Conference Call, hosted by John Visentin, Vice Chairman and Chief Executive Officer. He is joined by Bill Osbourn, Chief Financial Officer. During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor.

At the request of Xerox Holdings Corporation, today's conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the expressed permission of Xerox. After the presentation, there will be a question-and-answer session. [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 Mr. Visentin. Mr. Visentin, you may begin.

Giovanni John Visentin, Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Good morning, and thank you for joining our Q1 2020 earnings call. Hope everyone is safe and healthy. This is an unprecedented time for individuals, businesses, and governments around the world. None of us have lived through a global health crisis of this proportion. So, we are learning fast, adapting and making decisions in the best interest of all our stakeholders including employees, customers, partners, shareholders and society. While we saw an immediate impact to our business due to the rapid implementation of lockdown measures globally, the disciplined approach we implemented over the last two years provides the foundation to move quickly to preserve cash, continue operations, provide support to our many clients on the frontlines, and apply our manufacturing and R&D expertise to help save lives. I'm incredibly proud of the Xerox team's dedication and ingenuity during this extraordinary time.

For the first quarter, we generated a \$173 million of operating cash flow from continuing operations, a decrease of \$49 million from a year ago. Free cash flow was \$150 million, down \$57 million year-over-year. Adjusted operating margin was 4.7%, down 630 basis points year-over-year. First quarter revenue declined 13.9% in constant currency year-over-year. GAAP loss from continuing

operations was minus \$0.03 per share, down \$0.37 year-over-year and adjusted earnings per share was \$0.21, down \$0.45 year-over-year.

These numbers are a direct reflection of the impact COVID-19 had on our business in the first quarter. All of the two countries where Xerox operates experienced a full or partial lockdown in the first quarter. The absence of people from the office resulted in an approximately 50% decline in page volumes in March, which impacts our variable rate contracts. Delayed installs whether because of an office was closed or limiting vendors onsite lowered equipment sales revenue by approximately \$100 million in the quarter. And the financial impact this global health crisis is projected to have on global GDP and our leasing portfolio required us to increase our bad debt reserve by approximately \$60 million.

As a result, we are withdrawing our 2020 financial guidance. While we have models that are prepared for a range of potential outcomes, we don't believe it is prudent to make assumptions given the number of unknowns related to the duration and magnitude of the disruption caused by COVID-19. We have been actively managing this crisis from early in the year. In February, our focus was on supply chain and ensuring we had what we needed to deliver for our customers and we did. By early March, we had asked our employees to work from home where possible in many cases before the government had required it. The health and safety of our employees comes first.

We also shifted the team's focus to those on the frontlines both supporting clients who rely on us in times of need and with new healthcare initiatives that address gaps in what is needed to treat the sick and stay safe. While there are some positive trends emerging in the fight against COVID-19, there remain important questions about how and when economies and businesses around the world will reopen while keeping their people safe.

We are working closely with other companies, government leaders, and healthcare professionals to implement new work guidelines in line with recommendations. In the meantime, our four strategic initiatives remain at the core of how we operate. We have continued our intense focus on managing cash, while streamlining our operations to do better for us and our clients. We are investing in innovation and continuing to examine M&A opportunities that strengthen us for the long term. We are better positioned to handle this crisis today because of the discipline and the work we did over the last two years.

Let's walk through each of the four areas. Project Own It, our enterprise-wide transformation initiative to optimize our operations and instill discipline across the company that enables us to take swift action in response to COVID-19 pandemic. When we saw early warning signs about the spread of the virus in Europe, we immediately established a taskforce of senior leaders to monitor developments in real time and began planning cost saving initiatives directed at discretionary spends and redirecting investments to the most critical areas including innovation and digital technologies.

We've increased already intense focus on cash and keeping our balance sheet strong through the crisis and resulting economic turmoil. Preserving cash is of paramount importance when we emerge from the crisis in a position of strength. Our employees are critical to our efforts and will be essential when we come out of this crisis. We are investing in their developments with increased training and opportunities to stretch into different areas that might be busier than their own.

For the time being our focus has been on keeping our employees hold during this crisis. We are participating in the government subsidy programs available in Europe and elsewhere that reduce our financial exposure and we have chosen to pay whatever additional sum is required, so impacted employees in those geographies continue receiving 100% salary and benefits where permissible.

From a revenue perspective, we expected to deliver results in line with our plan until we began seeing economies shutdown. This ultimately resulted in an approximately 50% decrease in page volumes in March. While long-term contractual relationships and managed print services ensures certain fixed minimum payments, the current situation continues to have a significant impact on variable contracts, delayed decision making and installs, and bad debt among other things.

We assess the impact on our business under several recovery scenarios. With stay at home orders still in place, we expect the most significant impact in Q2 with a gradual recovery in Q3 and performance closer to our plan level in Q4. Our clients are primarily large enterprise and small and medium sized businesses, both of which had to shut our offices and move to remote working environments in March.

On the enterprise side, we saw a mixed situation with some clients such as federal and state governments, as well as healthcare providers continuing to operate and in need of additional resources to address the pandemic. Governments and healthcare clients are investing in high end production such as the Baltoro Inkjet press and the iGen 5.

Placements of our new black and white light production device were also strong among public sector clients and those in education. Our ability to offer a total solution that combines equipment and software remains a key differentiator. We responded to emergency request for equipment and support from clients.

Teams from Xerox supported the USNS Mercy and the USNS Comfort before they deployed to Los Angeles and New York respectively. We rushed printers to the top of field hospitals in the Midwest and on the East Coast. Clients such as Cleveland Clinic started using our recently launched cloud based on-demand print platform to help support or overflow volumes and business continuity plans.

We quickly developed an app for Imperial College Healthcare NHS Trust, one of the largest national health system trusts in the UK to help them track doctors and nurses to manage workloads during the crisis. Even with all of that was happening in terms of both business and personal concerns, we saw employees across the globe including in Italy closing deals and weighing back business from competitors

For instance, our Italian partner EtiQube closed a deal over videoconference with a top local fashion company where competitor had been an incumbent for 20 years. What sold the client was the power of our AltaLink's and VersaLink's ConnectKey software and apps. And this is just one of many examples. In fact, pipeline and orders were up in March. A strong signal demand for our technology and services remains high.

On the SMB side many of these companies took a much harder hit and have less leeway in their business to absorb a prolonged economic downturn. Many countries including the US have instituted financial plans to support smaller companies, and we are working closely with them to ensure they are aware of what safety nets are available and how to apply.

With both SMB and enterprise clients, Xerox's leasing business are proving to be a key differentiator in winning and retaining business. Our strong balance sheet allows us to provide flexible financing to qualified customers and invest in competitors take-outs, which will be even more important when we begin to emerge from this crisis. We've also invested in additional partner support including making favorable changes to Xerox's rebate structure and providing increased training and marketing support on offerings that can help their clients navigate through this crisis.

Going forward, the extent of the COVID-19 impact on our business depends largely on when stay-at-home orders are lifted and what's required for businesses to return to the office, while keeping their employees safe. In the meantime, we continue to invest in key growth drivers in our business and broadening our clients understanding about what Xerox can do to support them both in a crisis

and out. Among the areas, we are investing is software-as-a-service, our IT services portfolio with an emphasis on bundled technology packages for remote working and remote learning and increased workflows through bots and other apps.

This month, Xerox celebrated its 114th birthday, having survived many crisis's over that time including the Great Depression. Interestingly, the company did well when others failed due to Xerox's ability to constantly innovate. We are still investing in our five innovation pillars and extending that work to new health care related initiatives that allow us to help save lives during this crisis.

While our lives may be physically closed, our R&D teams remain up and running, collaborating remotely and continuing to make progress. The 3D engineering team has pulled forward two key work streams, software development using simulation tool and machine design documentation. They remain on track to launch the industry's first liquid metal printer by the end of the year. The team developing our first AI workflow assistant offering continues to expand the base of trial customers helping to refine the core AI engine and the value proposition in preparation to make it commercially available in late Q3.

In IoT, the engineering team working on our industrial predictive maintenance solution is advancing the core analytics capabilities including underlying component models and simulation tools, all of which is being done remotely.

In digital packaging, the team is engaging lead customers in how our technologies can deliver new levels of late stage personalization and improve operational efficiencies and production environments. Our newest innovation area is clean tech. And we are focusing on identifying technologies that reduce humankind's negative environmental impact on the world.

The team is refining the techno economic model for one of our initial early stage technologies focused on improving building energy and HVAC efficiency. This will help guide our technical team to test key assumptions in our work with the US Department of Energy to develop a solution that could reduce energy consumption of air conditioners by up to 80%, improving our quality in buildings and reduce greenhouse gas emissions.

Given our strong focus on innovation we were able to quickly stand up a team of our smartest engineers, researchers and scientists to think creatively about how to address the challenges presented by this virus. It was clear that we all had a role to play and our finest problem solvers were equal to the task.

Within weeks we are working with others to scale up production of a disposable low cost FDA approved ventilator and related airway pressure monitor. Also we are now making hospital grade hand sanitizer at our facilities outside of Toronto, Ontario and Rochester, New York. We expect to produce and deliver up to 140,000 gallons of hand sanitizer in the second quarter and our entire inventory was sold before we made the first batch. We will continue to make sanitizers and ventilators as long as there is demand. We have and will continue to run our business prudently when it comes to any expenditure.

Our rapid response to early warning signs in Europe allowed us to move quickly to eliminate discretionary spending, so we could continue to fund growth initiatives. Xerox has a strong balance sheet and liquidity. At the end of Q1, we had approximately \$2.7 billion of cash and a \$1.8 billion undrawn revolver. We have approximately \$1 billion of debt maturing in 2020, which we plan to refinance over time as our core debt level remains within an investment grade credit metric range. We are committed to our shareholders return policy including our current dividend rate and plan to return at least 50% of annual free cash flow.

We will continue to be opportunistic about M&A despite the COVID-19 crisis. In Q1 we acquired four smaller companies extending our strategy to grow in the SMB market in Canada and the UK. We're focused on implementing our three-year plan around the four strategic initiatives. We are making smart investments across our portfolio from core to adjacent to new markets. We believe the economic environment will present unexpected opportunities and we will evaluate them with our established M&A criteria. As we have always done, we will evaluate the returns of any cash allocation strategy including share buyback to achieve the best return for our shareholders.

Now, I'd like to hand it over to Bill to cover our financial results in detail.

William (Bill) F. Osbourn, Chief Financial Officer & Executive Vice President, Xerox Holdings Corp.

Thank you, John. Before I start the review of our financial results, I'll take a few minutes to discuss the financial impact of the COVID-19 pandemic on our first quarter results. Until the late February timeframe, we expected to deliver results in line with our plan, but as the global economic disruption caused by the pandemic worsened like many other companies, our business slowed. The lockdown in businesses resulted in delays in equipment installs and purchase decisions. And the variable components of post-sale revenue, such as managed print services agreements where revenue is based upon the number of page clicks, declined.

The third month of any quarter is typically our strongest, when the largest proportion of equipment is sold and profit is recorded. Therefore, our first quarter was significantly impacted by the ramping of office closures in March, which limited our ability to deliver and install equipment. Further, as more businesses required employees to work from home, the use of Xerox equipment declined, impacting our wholesale revenue. Most of our customer relationships are contractual with contract terms that typically include a discharge, as well as a variable component that includes service and supplies linked to print volume and the percentage of fixed versus variable component varies by channel and geography.

As a result, COVID-19 had a greater impact on equipment sales in Q1 as deliveries and installs, which would have occurred late in the quarter were unable to be completed, while the decline in post-sale revenue was somewhat contained due to our contractual business. Through Project Own It, we have become a more agile operation and we were able to react quickly as the pandemic became more widespread. Project Own It initiatives have been ongoing and savings from these initiatives provided a partial offset to the sudden revenue impact from the health crisis.

In addition, during March, we implemented an operational resilience plan focused on cash and expense management and preserving our strong balance sheet in order to mitigate the impact of the crisis on our operations and business.

With regard to our customer financing operations, we have low historical bad debts, less than 1% of revenue in 2019. But they increased our bad debt reserve by approximately \$60 million in the first quarter to reflect an expected increase in write-offs of customer lease receivables, resulting from the pandemic.

Our bad debt reserve is an estimate of losses that are expected to be incurred in the future and is calculated by applying a projected loss rate to our portfolios by country based upon historical trends and projected behavior, which takes into account global factors. In assessing the level of bad debt reserve in Q1, we looked at current and forecasted economic conditions, current portfolio credit metrics, as well as the level of write-offs on our portfolio during the credit crisis in 2008 and 2009.

As of March 31, 2020, 4.4% of our finance receivables were reserved compared to 2.6% as of December 31, 2019. Our finance portfolio is diverse with no significant concentration in any one

name, industry or geography. And we have a disciplined credit policy and are working with our customers and partners to preserve relationships over the long-term.

Importantly, we have strong balance sheet and sufficient liquidity with approximately \$2.7 billion of cash, cash equivalents and restricted cash at the end of Q1 and a \$1.8 billion undrawn revolving credit facility that matures in the third quarter of 2022.

Now, looking at the income statement, total revenues in the quarter declined 13.9% at constant currency and 14.7% in actual currency. Until March, we expected revenue to come in closer to our plan, which would have been a decline in the mid-single digits.

Turning to profitability, adjusted operating margin of 4.7% in Q1 was 630 basis points lower year-over-year, largely as a result of 190 basis point decline in gross margin and a 410 basis point increase in SAG as a percentage of revenue, including 330 basis points from the increased bad debt provision. The decline in gross margin is impacted by lower revenues including higher margin in post-sale revenue, primarily as a result of business closures due to the COVID-19 health crisis, as well as the impact of price reductions in line with historical trends, transaction, currency and tariffs, which are partially offset by benefits from our Project Own It transformation actions.

Operating income was impacted by accelerated revenue declines resulting in lower gross profit that were only partially offset by expense reductions and includes an approximate \$60 million increase in bad debt expense, which as I mentioned covers our projection of higher bad debt, as a result of the pandemic.

Last; RD&E as a percent of revenue increased 30 basis points and attributed to the decline in operating margin. However, RD&E expense declined by \$8 million year-over-year, partially due to the timing of investments.

Below operating profit, other expense net of \$23 million was \$16 million better than the prior year, primarily due to lower non-service retirement related costs, lower non-financing interest expense and higher interest income. The lower non-financing interest expense is the result of a lower average debt balance and the higher interest income is due to higher cash balance, which includes \$2.3 billion of proceeds from the sale of our interest in Fuji Xerox and XIP, the Fujifilm in November.

Our adjusted tax rate in the quarter was 29.4% and compared to 26.3% in the prior year. The higher tax rate year-over-year is primarily due to geographic mix of profits, as well as the impact of discrete items and lower pre-tax income.

Adjusted EPS of \$0.21 was down \$0.45 compared to Q1 2019, significantly off our planned earnings level, which anticipated growth year-over-year. The decline was largely driven by the COVID-19 impact on operations, which offset the benefits from cost reductions and also a \$0.20 impact from an increase in bad debt expense.

Benefits from lower net interest expense, lower shares and other cost reductions were offset by the negative impact from higher taxes, tariffs and transaction currency. The GAAP loss of \$0.03 per share was \$0.37 lower year-over-year, including the aforementioned \$0.45 decline in adjusted EPS, partially offset by a net benefit of non-GAAP adjusted items related to lower non-service related pension expense and higher transaction costs related to the HP transaction.

Non-GAAP adjustments to EPS include restructuring and related costs, the amortization of intangible assets, non-service retirement related costs, transaction and related costs net, and contract termination costs, as well as the income tax on those adjustments. In Q1, we reported \$41 million of restructuring and related costs, and for 2020, we still expect restructuring charges of approximately \$175 million for the full year.

Moving now to slide 8, I will discuss cash flow. As you are aware, this management team is focused on cash. John and I remind you of this fact every quarter because it is our priority and we have a detailed cash management process in place, which at a macro environment such as this has become even more detailed. We are monitoring cash inflows and outflows daily. We are reducing discretionary spend and we are redirecting investments to the most critical areas. I will discuss more on our view of cash and liquidity shortly, and we will now look at our first quarter cash flows.

In Q1, we generated \$173 million of operating cash flow from continuing operations, which was \$49 million lower in the first quarter of 2019, primarily driven by lower income. Working capital was \$133 million better than the prior year, reflecting the higher cash from accounts receivables due to lower revenue and higher cash from payables due to the timing of payments, partially offset by a lower level of purchases. The higher cash generation from accounts receivable and accounts payable was partially offset by higher inventory levels.

Inventory levels were impacted by equipment installation delays and lower demand for post-sale, primarily caused by office closures in March. The year-over-year change in cash in the other category is primarily in other current and long-term liabilities, which reflects lower accruals, particularly incentive related accruals associated with indirect channel partners in the current year and the timing of payments for restructure related costs in the prior year.

Restructuring payments of \$35 million were in line with prior year, and we continue to expect full year restructuring payments of approximately \$175 million. CapEx was \$23 million in the quarter and free cash flow was \$150 million. We still expect CapEx of approximately \$100 million for full year 2020, primarily related to investments in our IT infrastructure.

In investing cash flow, acquisitions spend of approximately \$193 million includes three acquisitions in the UK and one in Canada, also further our SMB strategy internationally. The spend is above the \$100 million that we guided to for tuck in acquisitions in 2020. However, we did spend well under our \$100 million in 2019 as a couple of the acquisitions that closed in Q1 were originally expected to close in Q4 of last year. We now expect our full year 2020 tuck-in M&A to be in the \$200 million to \$300 million range. As John mentioned, we will continue to be opportunistic about M&A despite the COVID-19 crisis and we'll continue our disciplined approach evaluating the returns on any cash allocation strategy.

Lastly, within financing cash flows, we returned \$58 million in dividends to shareholders in the first quarter and we did not have any share repurchases in the quarter. We had no payments on debt and ended the quarter with \$4.3 billion of debt in approximately \$2.7 billion of cash, cash equivalents and restricted cash on our balance sheet.

Let's now turn to slide 9 for more detail on revenue. First quarter revenue declined 14.7% or 13.9% in constant currency. As I mentioned earlier, as of the end of February, we had been on path to deliver revenue with our planned level, but as our first quarter business is largely skewed to March, the expansion of the pandemic disproportionately impacted our first quarter revenue. Geographically, Americas revenue declined 11.8% in constant currency, while EMEA was down 17.6% in constant currency.

Our European operations were more heavily impacted due to the earlier onset of the pandemic, which resulted in business closures the entire month of March, while in North America business shutdowns impacted our operations largely in the second half of the month.

In addition, a large proportion of our business in Europe is through indirect channels, which was heavily impacted in March as channel partners lowered purchases to manage our cash and inventories, while in the US we have a larger direct business for SMB and large enterprise customers.

Equipment sale revenue was down 27% in constant currency in the quarter with every product segment impacted, however equipment sales grew in our US enterprise operation, which among other industries covers government, healthcare, education, pharmaceuticals and food industry clients, all essential industries during this pandemic. These customers are continuing to invest in new equipment and in certain areas are developing applications that are increasing print volume.

For example, in education, remote learning is driving more print flow into production facilities either in school districts or in print service providers for workbooks and worksheets to support teachers and students embarking on remote learning to navigate school closures. [indiscernible] (00:31:04) in the quarter, the decline in sales in our high-end devices is primarily in the lower end of the range, which was impacted by office closures and lower indirect channel activity. This was partially offset by the demand for our Baltoro Inkjet press, iGen and Continuous Feed Color systems.

In the mid-range we experienced a significant decline in our European indirect channel partners, as well as in our US indirect channels and XBS organization. They primarily serve SMB customers and were significantly impacted by the March slowdown in activity.

In our entry segment, lower channel sales in EMEA and the US were partially offset by a large order in Eurasia that occurred earlier in the quarter. Post sale revenue declined 11.4% actual currency or 10.5% in constant currency. Post sale was impacted by the industry trend of lower volume devices and page volumes. But in the first quarter, page volumes dropped further as offices closed and more employees began working remotely.

While our post sale revenue is largely contractual, our bundled contracts have a fixed component, as well as a variable component that is based upon print volume. In addition, we have lower activity in unbundled supplies, which are largely in indirect channels and developing markets.

Xerox services revenue declined approximately 8% year-over-year in constant currency, also impacted by March closures. Services declines was down significantly more in European operations as compared to the US. However, signings in both Europe and the US were very strong. We had a significant growth in renewals with the highest renewal win rate in over two years. And the new business signings rate of decline improved significantly compared to 2019.

We've implemented revenue actions that are focused on maintaining stability in our core markets, while building capabilities to capture new opportunities. We are continuing to invest in our top line in areas that are essential for today and in our innovation areas that are key for our longer term future.

John talked about some of the offerings that support a flexible work environment, such as digital mail services and IT services supporting remote workers and learners. Our investments in top line, in addition to improved signings in Q1 and our mostly contractual business gives us confidence in our revenue rebounding as businesses resume operations.

Now, turning to slide 10, our view of profit and earnings. Adjusted operating margin was 4.7% in the quarter, well below our target, due to the significant decline of revenue caused by the pandemic. As a result of the discipline we have developed through our Project Own It transformation program, we quickly implemented actions to reduce discretionary spend in response to the pandemic. These actions are in addition to our plans and initiatives and our program to achieve at least \$450 million of gross savings in 2020, which we are on-track to deliver across seven targeted functional cost areas with a goal of simplifying our operations.

In 2019, we achieved \$640 million of gross cost savings, and importantly, began the transformation to make our operations more agile, which will help us through the current crisis. Adjusted EPS of \$0.21 declined \$0.45 year-over-year, well below our plan in which we expected an increase year-over-year.

As I mentioned earlier, the decline was largely driven by the impact of COVID-19 on operations and a \$0.20 impact from an increase in bad debt expense, as well as the negative impacts of higher taxes and transaction currency, which were partially offset by lower net interest expense, lower shares and other cost reductions.

Moving on to slide 11 and review of capital structure. We ended the quarter with \$4.3 billion of debt, of which \$3 billion supports customer financing activities, and therefore, we break down our gap between financing debt and core debt. Financing debt is allocated by applying a 7:1 leverage to our financing receivables and equipment on operating leases, which together comprise our total finance assets.

Core debt was approximately \$1.3 billion and we ended the quarter with approximately \$2.7 billion of cash, cash equivalents and restricted cash, which puts us in a net cash position of approximately \$1.4 billion when netting cash against core debt.

In 2020, we have approximately \$1 billion in bonds maturing, which we plan to refinance over time through the debt capital markets or other alternatives such as securitization. Our liquidity position is strong with approximately \$2.7 billion of cash, cash equivalents and restricted cash, and a \$1.8 billion bank revolver, which is fully available to us.

As of December 31, 2019, our net unfunded pension liability was \$1.2 billion, which is comparable to the net balance at the end of 2018 as the increase in pension obligation as a result of lower discount rates was offset by asset returns and contributions.

The net balance includes approximately \$815 million of unfunded pension liabilities for plans that by design are not funded. In 2018, we've attributed a \$141 million to worldwide pension plans and expect to contribute approximately \$135 million in 2020.

Last on slide 12, I'll wrap up with some thoughts on the balance of 2020. During this unprecedented time, we are focused on the health and safety of our employees, customers, and partners, and we are actively engaged in supporting the fight against this pandemic. We are also focused on mitigating the effect of this crisis on our business and operations. However, as John advised, the uncertainty around the containment of the pandemic and the business resumption makes it difficult to predict the full impact on our business operations and financial performance. As a result, we are withdrawing our previously issued full year 2020 financial guidance for revenue, EPS, adjusted operating margin and free cash flow.

We've assessed the impacts on our business under several recovery scenarios, and we expect the most significant impact in Q2 with a gradual recovery in Q3 and performance closer to our plan level in Q4.

As we stated, our revenues are largely contractual and we have demand built in from the Q1 delayed installations. Therefore, we believe we will be able to rebound once businesses reopen. On capital allocation, we are committed to our dividend and our policy of returning at least 50% of free cash flow to shareholders, our debt levels within our targeted leverage for an investment grade credit metric, and we have a strong balance sheet and liquidity, which supports our dividend policy. We have a disciplined process for evaluating returns and cash allocation strategies including share repurchase to determine the best returns for our shareholders.

I will now turn it back to John for some additional comments before going to Q&A.

Giovanni John Visentin, Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Thank you, Bill. Today, none of us has a crystal ball to predict what will happen next. However, it's our responsibility to think about the full range of outcomes and how to prepare ourselves, our

businesses, and our people for any outcome. As part of that work, we are focused on how many will work from home and for how long? A question we need to answer for our employees and for our clients. It's important to remember working from home is not a new concept. Many companies have implemented flexible policies over the last 10 to 20 years and many in recent years also asked employees to return to the offices to speed decision making and faster collaboration.

I can tell you this, in all the conversations I'm having with the CEOs, government officials, and others, the prevailing question isn't whether to return to the office, it's when. That said the next pressing issue businesses are dealing with is ensuring their employees can be productive and secured when they are working from home. How can we help manage to our workflows? How do we protect our clients distributed network of systems from hackers? In this environment, clients are increasingly looking to extend the digital enterprise to the home and back, so information flows quickly and securely to the right people at the right time. So, while the current economic environment presents challenges in the short-term, we are working closely with clients and partners alike to extend Xerox's secure ecosystem beyond the office to the home to ensure a seamless working experience, no matter the location.

Now, let's open the lines for questions.

Unverified Participant

Thanks, John. Before we get to the Q&A with John and Bill, I will point out that we have in the appendix to our materials, additional supplemental for reconciliations and posted on our Xerox Investor Relations website a full set of earnings materials.

Operator, please open the line for questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Katy Huberty of Morgan Stanley. Your line is now open.

<Q – Katy Huberty – Morgan Stanley>: Thank you. Good morning. First question, Bill, you mentioned that your services contracts, the mix of fixed versus variable defers by channel and geography. But if you average it across the business, can you give us any sense for what the variable element is as a mix of the services business. Then I have a follow up.

<A – Bill Osbourn – Xerox Holdings Corp.>: Sure. Hi, Katy. So, yeah, the first thing to point out is to remind everyone that over 80% of our revenues are contractual in nature and involve multi-year contracts. But as you state, there are components within the contracts that are fixed and those that are more variable in nature. And as I noted on my prepared remarks, it does vary by the way you go to market and by geography for example. In EMEA, it tends to be more variable in the post sale and SMB part, especially in the US tends to be more fixed.

On an overall perspective, if you look to our components of post sale, especially maybe the way it's broken up in our MD&A, obviously the financing is pretty fixed associated with the lease arrangements, the supplies, paper and other line item in our MD&A is more transactional in nature, as you sell those. Those are unbundled supplies as opposed to the supplies that are part of these multiyear service arrangements. So, the services maintenance and rentals piece is the part that has fixed versus variable, and on average in recent quarter to period, it's been around 50% fixed and 50% variable, but that can change depending on where revenue is coming from, as I said SMB in the US has a higher percentage of fixed versus variable than others.

<Q – Katy Huberty – Morgan Stanley>: Okay. That's very helpful. And then just stepping back, we haven't heard other companies talk about return to their original financial plan in the fourth quarter. Can you just talk about the cross-currents? Is that, that you see enough pent-up demand for equipment installations that, that would offset the weaker economic environment and the fact that we may not be a 100% back at the office even by December?

<A – Bill Osbourn – Xerox Holdings Corp.>: Yeah. So, yes, just to make sure I was clear in my prepared comments. We fully expect Q2 to be worse than Q1, be the worse quarter of the year. With that said, our base model assumes businesses reopening late in Q2, early Q3 and then Q4 not back to plan, but closer to plan.

With that said, we've modeled other various scenarios where Q3 is similar to Q2, and both those quarters being worse than Q1, and then Q4 is where things start, it's a quarter later start getting better and even in that model we have mild positive free cash flow for the year. But it is hard to predict, but in all of our models Q2 is worse than Q1, and Q4 we're getting closer to plan, but we're clearly not as planned.

<Q – Katy Huberty – Morgan Stanley>: Okay thank you so much.

<A – John Visentin – Xerox Holdings Corp.>: Thank you, Katy.

Operator: Thank you. And our next question comes from Matt Cabral of Credit Suisse. Your line is now open.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Thank you very much. I know you guys aren't giving explicit guidance, but I was hoping you could just walk through your free cash flow dynamics a little bit, and in particular, how we should think about the flow through of lower net income versus potentially offsets be it working capital, the inflow from financing receivables, just across the balance of the year?

<A – Bill Osbourn – Xerox Holdings Corp.>: Hey Matt, it's Bill. So obviously, lower net income will continue to be a negative into Q2 just as it was in Q1. We do expect similar dynamics on the working capital as far as receivables as a result of lower revenues being a source. We hope to manage our inventories better. It was unexpected what happened at the end of Q1, which resulted in the higher level of inventories than expected because we expected those inventories to be sold, which is I noted on the prepared remarks delayed about \$100 million in ESR that we still expect to occur just later in the year when businesses reopen.

And then we – as I noted in the prepared remarks continue to manage payables as closely as possible to purchases. What we're actually buying and making sure there is nothing discretionary that doesn't need to be bought and then managing the timing of those payable, so we expect that to be a source.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Got it. And then thinking about the cost structure, it sounds like you're still on track for the \$450 million gross target you guys laid out coming into this year. I'm wondering if you can just talk about puts and takes to potentially do a little bit more and if there is any potential to bring forward what you had sort of laid out as the plan going into 2021 into this year.

<A – Bill Osbourn – Xerox Holdings Corp.>: Yeah. So, the \$450 million in initiatives pretty much by the beginning of the year was mostly lined up. We knew what we were doing, the actions we were taking, if you noticed the restructuring charges for the year as some of that lines up with those initiatives we've held it, so the \$175 million. So, we're very confident in achieving the \$450 million in addition to the \$640 million we did last year.

So then, as we noted on our prepared remarks once we saw what was happening with the pandemic in the March timeframe, we took additional initiatives from a cost control perspective, looked at things such as like all our contractors and – what's really necessary versus not necessary, it's the first variable component, [indiscernible] (00:46:57) hours, other various initiatives that we looked – almost took a blind sheet with expenses and analyzed every one of them, and said, in this environment what is really necessary.

With that said, one of the key things is that, we want to make sure we continued investing in key areas, whether it was in our IT services initiatives or whether it's in the SMB market as noted by our investments in multi branded resellers expanding our SMB strategy over to the UK and in the Canada.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Thank you.

Operator: Thank you. And our next question comes from Jim Suva of Citigroup Investment. Your line is now open.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you very much. John, you mentioned you're doing now disposable ventilators and hospital grade sanitizers, which is great for everybody, as well as the first responders and the citizens widely. When you think about though for shareholders, can you talk a little bit about are the profitability of these kind of at your normal corporate average or they take a investment few phases to get going and then the concern is in six months from now, is there going to just be an oversupply of such materials.

<A – John Visentin – Xerox Holdings Corp.>: So, Jim, yeah. First and foremost what we did is we launched these initiatives to address the needs of patients and frontline health workers, so saving lives was extremely important. That said, we took a disciplined approach on what we can manufacture, what's the minimal CapEx required, assuring that we don't have inventory that's left over should the needs decline whether it's in ventilators, hand sanitizers, and we also looked at

masks at one point, and I think – and we did quite a bit on mask. So, we didn't do this solely for a financial gain, this is really contributing against the pandemic. But I would tell you that our focus is we'll manufacture as long as required and if it's not required then we can stop it quite quickly.

<A – Bill Osbourn – Xerox Holdings Corp.>: Yeah. Jim, minimal upfront investment on these initiatives, and as John said, we're not going to build up a lot of inventory unless we're certain that the demand in the sales will be there.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great. Thank you so much for your details, and it's greatly appreciated gentlemen.

<A – John Visentin – Xerox Holdings Corp.>: Okay.

Operator: Thank you. And our next question comes from Shannon Cross of Cross Research. Your line is now open.

<Q – Shannon Cross – Cross Research>: Thank you very much. I wanted to ask about what you've seen so far in the month of April, and specifically I'm just curious if the conversations that your sales people are having with any customers have changed now that some of the states and some of the countries certainly in Europe are starting to look at opening up. So, has there been any shift in tone or interest in sort of restarting at this point? And then I have a follow up. Thank you.

<A – Bill Osbourn – Xerox Holdings Corp.>: Hey. Hey, Shannon, it's Bill. So, the page volume declines we saw starting in March, obviously continued into the April timeframe, not giving specific numbers, but as I mentioned before, we are expecting Q2 to be worse than Q1.

And interestingly from a sales perspective, as we mentioned on the call, renewals, we have the highest rate of renewal in Q1 in over two years, and new business signings, although down slightly we're still at a very low rate, and then actually a very good quarter in Q1 and the sales process is still going on, especially in the large enterprise area, in terms of getting deals negotiated is obviously the issue is recognizing the revenue and getting the installs associated with those deals.

<Q – Shannon Cross – Cross Research>: Okay. And then John, can you talk more specifically on what you're doing in terms of helping customers with work from home? And I was just trying to think about how like what product software services you have that you're able to leverage with your customers because clearly there are number IT hardware companies that are – well, in services companies that are trying to help out their customers, so I'm just curious...

<A – John Visentin – Xerox Holdings Corp.>: Yeah.

<Q – Shannon Cross – Cross Research>: ...specifically within Xerox's portfolio what you are using? Thank you.

<A – John Visentin – Xerox Holdings Corp.>: Yeah. Shannon, yeah, one of the things we're working with clients and implemented for some clients is like we got a unique suite of softwares and service and apps that really allows us to get the desktop experience for our clients in workplace from home and beyond. Security becomes absolutely key for them. So, we have offerings whether it's IT services for remote workers, a digital hub in cloud print, our virtual print management services, and I can go on and on. And what we've done is we – with examples, whether it's a large hospital, where we're helping them with the whole register of daily health and availability of their thousands of essential employees, to assure business continuity. We're working with some different banks where we've launched programs that allow them to equip their critical staff with not just printers, multifunction devices and the key is security.

The biggest concern right now with everyone working from home is security and workflow of documentation and the work flow that goes back and forth. It's not just I need to print this, it's how do I keep it secure and somebody's offering using our XMPie, using our DocuShare Flex is allowing us to help these clients through it.

<Q – Shannon Cross – Cross Research>: Thank you.

Operator: Thank you. And our next question comes from Paul Coster of JPMorgan. Your line is now open.

<Q – Paul Chung – JPMorgan Securities LLC>: Hi, thanks. This is Paul Chung on for Coster. Thanks for taking my question. So, if you could kind of expand on – as it looks like you plan to offer broader range of solutions, IT services to your customers like a VAR distributor. Is this capability client device only or do you intend to offer a range of on-prem and cloud-based enterprise infrastructure solutions. Thanks.

<A – John Visentin – Xerox Holdings Corp.>: I'm not sure I understood, but I can say the offerings that we just described that we're putting in place is we're looking to also offer them a cloud-based solution and are offering it for our clients and for our partners, and some are implementing as we speak.

<Q – Paul Chung – JPMorgan Securities LLC>: Thank you.

Operator: Thank you. And our next question comes from Ananda Baruah of Loop Capital. Your line is now open.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Hi. Good morning, guys. Thanks for all the detail and hope that you guys are doing well. Appreciate the questions. Is there anything from – Bill from some sort of sensitivity perspective with regards to revenue and operating margin that you can provide to us, just as we think about Q2 going into Q3 and even into Q4 that we could use as a guide rail as we do our work? Anything out in that regard, and then I have a follow up or two. Thanks.

<A – Bill Osbourn – Xerox Holdings Corp.>: Yeah. As I said in the prepared remarks our Q1 operating margin, our gross margin was down due to the loss of the both ESR, but also the higher margin post sale. Operating margin in Q1 though, particularly was hit by the \$60 million bad debt charge. Obviously, there will be true-ups of that as we update our estimates, but the initial impact was likely to be the greatest charge would be in Q1. So, you wouldn't expect that to repeat at the same magnitude in future quarters as you're trying that up based upon on new data.

With that said, you have the – the post sale having more of an impact starting in Q2 versus Q1 where it tailed off in the March timeframe, you're having it for the full quarter and post sale tends to be higher margin versus ESR, so you'd expect to have an offsetting, a more negative impact in Q2 than in Q1 for that. So, I would look at [indiscernible] (00:55:34) of the bad debt charge to quite the magnitude you had in Q1, but you also have a greater negative impact of post sales being impacted for the full quarter versus what happened in Q1.

<Q – Ananda Baruah – Loop Capital Markets LLC>: That's really helpful. I appreciate that. And just to follow up on how to think about the cash flow model through the year. I may have missed it, but any comments on payables, your bad debt expenses [indiscernible] (00:56:02) going up that much. But I'm also wondering if you're expecting delays in payments to enterprise customers? John, sounds like you've been having a lot of conversations with key customers. So, I'd love to get your thoughts around that when we think about timing of cash flow receivables...

<A – Bill Osbourn – Xerox Holdings Corp.>: Receivables, yeah, yeah.

<Q – Ananda Baruah – Loop Capital Markets LLC>: ...as we move through the year. Yeah. Exactly.

<A – Bill Osbourn – Xerox Holdings Corp.>: Yeah. So, we put in a process starting in March to work with our customers. And as I mentioned, we have longstanding relationships with these customers. We want to work through this pandemic with them. Oftentimes, we're able to negotiate solutions with them maybe extending the term of the contract, forgiveness of a payment for a month or two and just adding it onto the back end. It's really on a case by case basis. But we are clearly working with our customers. On the SMB side, we point out what's available from a government subsidy perspective and making sure that they're getting all that they can get from a subsidy perspective, but we are getting the requests, we're working through it with our customers both large enterprise and SMB.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Appreciate it guys. I'll let it go there; I can get the rest on the call back. Thanks.

<A – Bill Osbourn – Xerox Holdings Corp.>: Okay.

Operator: Thank you. And ladies and gentlemen, that does conclude our question-and-answer session. I would now like to turn the call over to John for any closing remarks.

Giovanni John Visentin, Vice Chairman & Chief Executive Officer, Xerox Holdings Corp.

Okay. Thank you. While this isn't a year we have planned for, this is the one we have. I'm really proud of this team. We moved quickly to help ensure that Xerox and its stakeholders will come out of this crisis in a position of strength. Well, thank you and be safe and be well.

Operator: Well, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.

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