

# Fourth-Quarter 2015 Earnings Presentation Non-GAAP Financial Measures

Ursula Burns  
*Chairman & CEO*

Leslie Varon  
*Chief Financial Officer (Interim)*

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# Non-GAAP Financial Measures

## **“Adjusted Revenue, Costs and Expenses, and Margin”:**

During third quarter 2015, we recorded a pre-tax charge – the Health Enterprise (HE) charge – of \$389 million (\$241 million after-tax or 23 cents per share), which included a \$116 million reduction to revenues. As a result of the significant impact of the HE charge on our reported revenues, costs and expenses as well as key metrics for the full-year period, we excluded the impact of this charge. In addition to the magnitude of the charge and its impact on our reported results, we excluded the HE charge due to the fact that it was primarily a unique charge associated with the conclusion, reached after a series of discussions, that fully completing our HE platform implementations in California and Montana was no longer considered probable.

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

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

In addition to the HE charge, the above items were also adjusted for the following items:

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.

Software impairment charge (Q2 2015) - The software impairment charge is excluded due to its non-cash impact and the unique nature of the item both in terms of the amount and the fact that it was the result of a specific management action involving a change in strategy in our Government Healthcare Solutions business.

Deferred tax liability adjustment (Q4 2014) - The deferred tax liability adjustment was excluded due to its non-cash impact and the unusual nature of the item both in terms of the amount and the fact that it was the result of an infrequent change in a tax treaty impacting future distributions from Fuji Xerox.

# Non-GAAP Financial Measures

**“Operating Income/Margin”:** We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the HE charge and the amortization of intangible assets, operating income and margin also excludes Other expenses, net as well as Restructuring and asset impairment charges. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. Restructuring charges consist of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment charges include 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. Such charges are expected to yield future benefits and savings with respect to our operational performance. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

**“Constant Currency”:** To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as “constant currency.” Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

**“Free Cash Flow”:** To better understand trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It is also used to measure our yield on market capitalization. A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth in the slide entitled “2016 Guidance”.

# Non-GAAP Financial Measures

**Expected reporting changes in 2016:** In 2016 we plan to revise the calculation of our Adjusted Earnings Measures to exclude the following items in addition to the amortization of intangibles:

- Restructuring and asset impairment costs including those related to Fuji Xerox.
- The non-service related elements of our defined benefit pension and retiree health plan costs (retirement related).
- Separation and related costs.

**“Restructuring and Asset Impairment Costs”:** As previously noted Restructuring charges consist of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment charges include 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. 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 a meaningful assessment of 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.

**“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) amortized actuarial gains/losses, and (iv) 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. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.

**“Separation and Related Costs”:** Separation and related costs are expenses incurred in connection with Xerox's planned separation into two independent, publicly traded companies as well as expenses related to the strategic transformation program. These costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services. These costs are incremental to normal operating charges and are being incurred solely as a result of the separation transaction. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

# Non-GAAP Financial Measures

**“Constant Currency”:** We also plan to revise our calculation of the currency impact on revenue growth, or constant currency revenue growth, to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which are currently excluded from the calculation. Over past few years the exchange markets for the currencies of all countries - developed countries and developing market countries - have experienced significant volatility and unpredictability. Additionally, due to the changing nature of the global economy and the increased economic dependencies among all countries, the currency exchange markets in the developing market countries are no longer materially different from those in the developed countries. As a result of these market dynamics and economic changes, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries, and therefore the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. Applying this revised methodology in 2015 would have increased the constant currency revenue growth rate by about 1% for both the Total Company and the Document Technology segment. The impact of this change was not material for 2014.

NOTE: The above noted changes are effective for our 2016 reporting. When these measures are presented in 2016, the prior year measures will be revised accordingly to conform to the changes.

Management believes that all of these non-GAAP financial measures provide an additional means of analyzing the current period’s results against the corresponding prior period’s results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

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

# Q4 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended December 31, 2015		Three Months Ended December 31, 2014	
	Net Income	EPS	Net Income	EPS
<b>Reported<sup>(1)</sup></b>	\$ 285	\$ 0.27	\$ 349	\$ 0.30
<b><u>Adjustments:</u></b>				
Amortization of intangible assets	48	0.05	52	0.05
Deferred tax liability adjustment	-	-	(44)	(0.04)
<b>Adjusted</b>	<b>\$ 333</b>	<b>\$ 0.32</b>	<b>\$ 357</b>	<b>\$ 0.31</b>
Weighted average shares for adjusted EPS <sup>(2)</sup>		1,046		1,171
Fully diluted shares at end of period <sup>(3)</sup>		1,046		

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

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock.

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

# FY GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Net Income	EPS	Net Income	EPS
<b>Reported<sup>(1)</sup></b>	\$ 552	\$ 0.49	\$ 1,128	\$ 0.94
<b><u>Adjustments:</u></b>				
Amortization of intangible assets	193	0.18	196	0.17
Software impairment	90	0.08	-	-
HE Charge	241	0.23	-	-
Deferred tax liability adjustment	-	-	(44)	(0.04)
<b>Adjusted</b>	<b>\$ 1,076</b>	<b>\$ 0.98</b>	<b>\$ 1,280</b>	<b>\$ 1.07</b>
Weighted average shares for adjusted EPS <sup>(2)</sup>		1,103		1,199
Fully diluted shares at end of period <sup>(3)</sup>		1,046		

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

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock.

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

# GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share	
	Q1 2016	FY 2016
<b>GAAP EPS from Continuing Operations</b>	<b>\$0.05 - \$0.08</b>	<b>\$0.66 - \$0.76</b>
<b>Non-GAAP Adjustments</b>	<b>\$0.16</b>	<b>\$0.44</b>
<b>Adjusted EPS</b>	<b>\$0.21 - \$0.24</b>	<b>\$1.10 - \$1.20</b>

Note: Adjusted EPS guidance excludes amortization of intangible assets, restructuring and asset impairment costs and certain retirement related costs. Separation and related costs are not yet finalized and thus are not included in EPS guidance, but will be excluded from Adjusted EPS in the future.



# Q4 Adjusted Operating Income/Margin

(in millions)	Three Months Ended December 31, 2015			Three Months Ended December 31, 2014		
	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported Pre-tax Income<sup>(1)</sup></b>	\$ 310	\$ 4,653	6.7%	\$ 348	\$ 5,033	6.9%
<b>Adjustments:</b>						
Amortization of intangible assets	77			83		
Restructuring and asset impairment charges	(5)			36		
Other expenses, net	46			57		
<b>Adjusted Operating Income/Margin</b>	\$ 428	\$ 4,653	9.2%	\$ 524	\$ 5,033	10.4%

(1) Profit and Revenue from continuing operations

# FY Adjusted Operating Income/Margin

(in millions)	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported Pre-tax Income<sup>(1)</sup></b>	\$ 412	\$ 18,045	2.3%	\$ 1,206	\$ 19,540	6.2%
<b>Adjustments:</b>						
Amortization of intangible assets	310			315		
Restructuring and asset impairment charges	186			128		
HE charge	389	116		-		
Other expenses, net	233			232		
<b>Adjusted Operating Income/Margin</b>	<b>\$ 1,530</b>	<b>\$ 18,161</b>	<b>8.4%</b>	<b>\$ 1,881</b>	<b>\$ 19,540</b>	<b>9.6%</b>

(1) Profit and Revenue from continuing operations

# Q4 and FY Adjusted Other, Net

(in millions)	Three Months Ended	
	December 31, 2015	December 31, 2014
<b>Other expenses, net - Reported</b>	\$ 46	\$ 57
<b>Adjustments:</b>		
Xerox restructuring charge	(5)	36
Net income attributable to noncontrolling interests	5	6
<b>Other expenses, net - Adjusted</b>	<b>\$ 46</b>	<b>\$ 99</b>

(in millions)	Year Ended	
	December 31, 2015	December 31, 2014
<b>Other expenses, net - Reported</b>	\$ 233	\$ 232
<b>Adjustments:</b>		
Xerox restructuring charge	186	128
Net income attributable to noncontrolling interests	18	23
<b>Other expenses, net - Adjusted</b>	<b>\$ 437</b>	<b>\$ 383</b>

# Q4 and FY Adjusted Effective Tax Rate

(in millions)	Three Months Ended December 31, 2015			Three Months Ended December 31, 2014		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
<b>Reported<sup>(1)</sup></b>	\$ 310	\$ 52	16.8%	\$ 348	\$ 34	9.8%
<b>Adjustments:</b>						
Amortization of intangible assets	77	29		83	31	
Deferred tax liability adjustment	-	-		-	44	
<b>Adjusted</b>	<b>\$ 387</b>	<b>\$ 81</b>	<b>20.9%</b>	<b>\$ 431</b>	<b>\$ 109</b>	<b>25.3%</b>

(in millions)	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
<b>Reported<sup>(1)</sup></b>	\$ 412	\$ (23)	(5.6%)	\$ 1,206	\$ 215	17.8%
<b>Adjustments:</b>						
Amortization of intangible assets	310	117		315	119	
Software impairment	146	56		-	-	
HE charge	389	148		-	-	
Deferred tax liability adjustment	-	-		-	44	
<b>Adjusted</b>	<b>\$ 1,257</b>	<b>\$ 298</b>	<b>23.7%</b>	<b>\$ 1,521</b>	<b>\$ 378</b>	<b>24.9%</b>

(1) Pre-Tax Income and Income Tax Expense (Benefit) from continuing operations

# Q4 and FY Services Revenue Breakdown

(in millions)	Three Months Ended December 31,			CC % Change	Year Ended December 31,			2015 % Change	2015 CC % Change
	2015	2014	% Change		2015	2014	2013		
Business Processing Outsourcing	\$ 1,786	\$ 1,858	(4%)	(2%)	\$ 6,872	\$ 7,218	\$ 7,161	(5%)	(3%)
Document Outsourcing	852	867	(2%)	3%	3,265	3,366	3,318	(3%)	3%
<b>Total Revenue - Services</b>	<b>\$ 2,638</b>	<b>\$ 2,725</b>	<b>(3%)</b>	<b>-%</b>	<b>\$ 10,137</b>	<b>\$ 10,584</b>	<b>\$ 10,479</b>	<b>(4%)</b>	<b>(1%)</b>

## As Adjusted:

Business Processing Outsourcing					\$ 6,988	\$ 7,218	\$ 7,161	(3%)	(1%)
Total Revenue - Services					\$ 10,253	\$ 10,584	\$ 10,479	(3%)	-%

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

# FY Adjusted Total Revenue/Margin

	Year Ended December 31, 2015				
	Total Revenue	Annuity Revenue	Outsourcing, Maintenance and Rentals Revenue	Total Segment Profit	Total Segment Margin
(in millions)					
<b>Reported<sup>(1)</sup></b>	<b>\$ 18,045</b>	<b>\$ 15,264</b>	<b>\$ 12,951</b>	<b>\$ 1,058</b>	<b>5.9%</b>
<b>Adjustment:</b>					
HE Charge	116	116	116	389	
<b>Adjusted</b>	<b>\$ 18,161</b>	<b>\$ 15,380</b>	<b>\$ 13,067</b>	<b>\$ 1,447</b>	<b>8.0%</b>

(1) Revenue from continuing operations.

# FY Adjusted Services Segment

(in millions)	Year Ended December 31, 2015					
	Annuity Revenue	BPO Revenue	Segment Revenue	% of Total Revenue	Segment Profit	Segment Margin
<b>Reported<sup>(1)</sup></b>	\$ 9,644	\$ 6,872	\$ 10,137	56%	\$ 446	4.4%
<b>Adjustment:</b>						
HE Charge	116	116	116		389	
<b>Adjusted</b>	<b>\$ 9,760</b>	<b>\$ 6,988</b>	<b>\$ 10,253</b>	<b>56%</b>	<b>\$ 835</b>	<b>8.1%</b>

(1) Revenue from continuing operations.

# FY Adjusted Key Financial Ratios

	Year Ended December 31, 2015		
(in millions)	Gross Margin	RD&E as % of Revenue	SAG as % of Revenue
<b>Reported<sup>(1)</sup></b>	<b>29.2%</b>	<b>3.1%</b>	<b>19.7%</b>
<b>Adjustment:</b>			
HE Charge	1.9%	-	(0.1)%
<b>Adjusted</b>	<b>31.1%</b>	<b>3.1%</b>	<b>19.6%</b>

(1) Revenue from continuing operations.



