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PRESENTATION

Operator

Good morning and welcome to the Xerox Corporation fourth-quarter 2015 earnings release conference call, hosted by Ursula Burns, Chairman of the Board and Chief Executive officer. She is joined by Leslie Varon, Vice President and Interim Chief Financial Officer. During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor.

At the request of Xerox Corporation, today's conference call is being recorded. (Operator Instructions)

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

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

Ursula Burns - Xerox Corporation - Chairman and CEO

Good morning and thank you for joining our call. Today we are announcing significant actions that will define the next chapter of our Company.

We will spend much of the call today discussing our plans to separate into two strong, independent market-leading companies. We will also discuss the multi-year strategic transformation program announced today. And of course, we will discuss our fourth-quarter and full-year 2015 results and 2016 guidance.

Let me begin with our plan to dramatically change the way we generate shareholder value. Today, we announced that the comprehensive structural review begun in October has been completed. The review has been a top priority for our Board of Directors and the executive team. We engaged outside advisors, including independent advisors to the Board in this process. It was a robust assessment of options for the Company's portfolio and capital allocation that would best position the Company to maximize shareholder value.



It became clear through this analysis that the benefits of separation outweighed the benefits of maintaining the current structure. The Board unanimously agreed that the optimal path forward for Xerox is to become two market-leading focused publicly traded companies.

We are confident this is the highest value-creating opportunity for our shareholders, for our clients and employees. These companies will both be significant, Fortune 500 scale companies and leaders in their market -- one comprising our Business Process Outsourcing business, the other our Document Technology and Document Outsourcing businesses.

Document Technology, with 2015 revenue of \$11 billion, will continue to lead the document management and document outsourcing market, leveraging its superior technology, solutions and innovation capabilities. BPO, with 2015 revenue of \$7 billion and already a leader in a growing market, will continue to pursue growth opportunities by capitalizing on its deep industry expertise, market-leading automation solutions, and track record of global delivery excellence.

I will discuss unique strengths, topline financial profiles, and growth opportunities of the two companies in more detail shortly.

First, let me talk about the compelling rationale that exists behind the decision to separate these two companies. We have two strong businesses, each facing different market and client realities. Document Technology faces modest secular decline in its markets, while BPO participates in a growing but rapidly evolving market. The businesses have distinct operating models and cash flow characteristics and very different growth drivers and competition.

The Document Technology business is one in which operational discipline and a commitment to transformative productivity is vital to sustaining quality and managing costs in an increasingly interconnected digital world. Doing that right creates strong profitability and cash flow that can be returned to shareholders and invested in selected growth opportunities.

BPO, on the other hand, needs to be highly adaptive, able to innovate and adopt technology quickly and shift its portfolio to address the fast-changing needs of its clients. We are seeing how new technologies, like software-as-a-service and robotics process automation, are changing the way that services are delivered.

Additionally, clients are requiring deep analytics for operational insight and greater personalization. The BPO market is growing at a greater than 5% rate and the majority of the revenue streams are recurring. Based on this, we concluded that these businesses would be stronger and able to create more value for shareholders, clients and employees as independent companies.

We are creating two companies that will be market leaders, benefitting from enhanced strategic and operational focus, distinct and clear financial profiles, and capital allocation policies, and simplified organizational structures. As standalone companies, they will have compelling investment cases and be better positioned to capitalize on growth opportunities and expand margins and market share.

We see the BPO Company as one focused on revenue growth, margin expansion and disciplined investment in attractive, growing markets. Document Technology will leverage its track record of market leadership and strong cash flow generation to sustain an investment grade rating and shareholder-friendly capital allocation plan.

Let's look more closely at each Company. The Document Technology Company will be the global leader in a \$90 billion document management and document outsourcing market with a presence in approximately 180 countries. We have a broad portfolio of products and are the equipment revenue market share leader. Our managed print services offerings are widely recognized as best of breed by customers and industry analysts. Despite secular declines in the printing industry, our Document Technology business remains highly profitable with annuity-driven revenue representing more than 70% of our sales. Through relentless cost discipline, this business generates strong and consistent cash flows that allow us to make strategic investments to penetrate higher growth markets such as aqueous inkjet, high-end color printing, managed print services and workflow.

BPO is a leading enterprise for the next generation of Business Process Outsourcing, with \$7 billion in revenue. In this business, we enjoy the number two position in market share in an industry that is expanding by more than 5% annually. We are advantaged with differentiated capabilities that

help clients improve their flow of work. We bring expertise in managing transaction-intensive business processes and are applying new innovations to automation solutions.

We have market-leading positions in healthcare, transportation, public sector and a range of other industries. Our high-recurring revenue and high renewal rates reinforce our confidence in our ability to grow market share and expand margins going forward.

We are very excited about the opportunities ahead of us for these two businesses. With increased strategic focus, we can capitalize on their unique strengths and capture the value creation opportunities that we see in each of them.

In conjunction with the separation announcement, we have also launched a strategic transformation program, targeting incremental savings of \$600 million over three years. This brings our total cumulative savings target to \$2.4 billion during this period, which includes ongoing productivity initiatives. In 2016, we expect a total of \$700 million in annualized savings. The plan is Companywide and will include a thorough review of how we work and how we operate.

Bottom line: we are not only optimizing our portfolio and capital structure, we are also driving a strategic transformation. This will improve our competitive position and help expand margins in both of our businesses during the separation process and beyond.

Our employees will benefit from working for industry leaders with streamlined structures and faster decision-making. The Companies will have greater flexibility to align employee incentives and rewards to business performance.

For clients, each Company will maintain its leading service delivery and innovation excellence. But we will be able to more quickly respond to market forces and client needs through focus and agility. And for investors, focused companies with optimized capital structures and capital allocation policies present distinct and compelling investment cases and will be well-positioned to deliver value.

Let me spend a moment on the separation process itself. We are committed to executing the strategic actions seamlessly and in the shortest possible timeframe. The separation is expected to be completed by the end of 2016, subject to customary conditions. We expect the transaction to be US federal tax free for our shareholders. During the process, we will remain focused on our clients, partners, suppliers and employees, and deliver strong financial results.

There are, of course, a series of key milestones that we will need to achieve in the upcoming months to complete the transaction. We will keep you updated on our progress.

And as you read this morning, Xerox entered into an agreement with Carl Icahn related to the governance of the BPO Company following the planned separation. Details are included in the 8-K that we filed today.

Now, let me make a few brief comments on the fourth quarter before turning it over to Leslie for a detailed results discussion.

We delivered strong performance in the face of challenging market conditions. Highlights were revenue of \$4.7 billion in the quarter, down 5% in constant currency year-over-year. Annuity revenue was 83% of total revenue. Adjusted EPS of \$0.32, above our expectation, and \$0.27 on a GAAP basis. Sequential increase in operating margin to 9.2%, strong cash flow generation of \$878 million in the quarter, and \$1.6 billion for the full year.

The changes we have made to the Services operating model are beginning to pay off, as demonstrated by sequential margin improvement and double-digit year-over-year signings growth.

Document Technology was the industry leader for the 24th consecutive quarter, and through focus on performance and productivity, maintained a strong margin.

Over the course of 2015, we returned \$1.6 billion to shareholders in the form of \$1.3 billion in share buybacks and over \$300 million in dividends. We have increased our annual dividends by 11% to \$0.31 per share, the highest level since 2000, beginning with the dividend payable April 2016.



Leslie will discuss our 2016 guidance and some changes we will make in our reporting. We expect 2016 to be a strong year for Xerox, as well as the foundational year for the two companies. Now I will turn it over to Leslie.

Leslie Varon - Xerox Corporation - VP and Interim CFO

Thanks, Ursula, and good morning everyone. I will start by walking through our results and then covering 2016 guidance before handing it back to Ursula to wrap up.

In summary, we delivered solid results in quarter four. Services came in about our expectations, driven by good sequential margin improvement. Document Technology revenue was weaker than anticipated, primarily driven by lower supply sales, but margin remained in the middle of our range, reflecting our ongoing cost discipline and business model flexibility.

Q4 cash flow, as anticipated, was seasonally strong and drove \$1.6 billion of full-year operating cash flow, resulting in a healthy ending cash balance of \$1.4 billion. During the year, we returned a substantial amount of cash to our shareholders, with \$1.3 billion in share repurchases and \$326 million in dividends.

Turning to the earnings slide, I will walk you through the income statement. Revenue in the quarter was down 8% at actual currency, and 5% at constant currency. Currency cost us approximately \$150 million on the topline. Services topline was flat at constant currency, helped by solid 3% growth in Document Outsourcing, offsetting a 2% decline in BPO. Document Technology declined 10% at constant currency, and drove the overall revenue decline. I will speak more about the drivers when I review the segments.

Gross margin of 31.3% was down 80 basis points year-over-year, but up 40 basis points sequentially. Sequential improvement was driven by Services, while the year-over-year decline was driven by Document Technology as well as a greater mix of Services, which carries a lower gross margin. RD&E was lower by \$5 million year-over-year and SAG was down \$59 million or 6%. Good expense reductions in absolute terms, but not sufficient to offset revenue declines, so operating margin of 9.2% was down 120 basis points year-over-year, and operating profit declined 18%.

Adjusted other, net expense was down year-over-year, driven by lower restructuring costs, as anticipated in our quarter 4 guidance. Equity income was \$32 million in the quarter, down \$9 million year-over-year, reflecting lower profits in Fuji Xerox, driven in part by the continued negative impact of translation currency. Our quarter 4 adjusted tax rate of 21% was below our guidance of 25% to 27%, benefiting our earnings by about \$0.02, and reflecting the impact of recent US tax legislation that extends R&D tax credits.

Bottom line: despite the revenue headwinds, we delivered solid Q4 adjusted earnings of \$0.32.

Moving on to our Services results, while many of the headwinds we have highlighted in the past continue, the benefits of the new operating model are beginning to be realized. Services revenue declined 3% and was flat at constant currency, consistent with both Q3 and full-year performance. BPO was down 2% as a result of lower new contract ramp from softer signings in earlier quarters, and our decision last quarter to reduce our financial risk and not fully complete the Health Enterprise Medicaid platform implementations in Montana and California.

Good growth continues in Document Outsourcing, up 3%, driven by strong Xerox Partner Print Services growth as well as strong equipment revenue growth in the Enterprise accounts, following continued good signings.

In terms of the opportunity ahead, total signings in the quarter were up 26% year-over-year and 8% for the trailing 12 months. New business signings were up 22% year-over-year in quarter 4. This really strong growth includes the Florida tolling contract. We are pleased to close on this contract and begin implementing a comprehensive tolling solution that leverages our best-in-class proven vector tolling platform.

Excluding the Florida contract, new business signings were up 10% in quarter 4, so a very good signings quarter. Our renewal rate in the quarter was 78%, below our 85% to 90% target range, and reflects in part one larger loss renewal opportunity, which would have been financially unattractive.



Services segment margin was 9.4%, down 40 basis points year-over-year, but up 130 basis points sequentially and above our 9% Q4 margin expectations. The set of Services decisions and actions we implemented last year are beginning to deliver better results. We recognize that we still have work to do.

First, to continue to grow signings and translate that into revenue growth. Second, to improve our business mix with a greater proportion of our revenue from higher value offerings. And finally, to capture additional efficiencies, including streamlining and automating more of our delivery capabilities.

I will now turn to Document Technology. Revenue in the quarter was down 10% at constant currency, with the additional quarter 4 weakness coming from lower US supply sales, driven in large part by channel dynamics. For the full year, revenue was down 8%, below our initial 2015 expectation of a mid-single-digit decline. The largest driver was the developing markets weakness throughout the year.

The Document Technology revenue decline is almost halved when the growth from Document Outsourcing is included along with Document Technology. Activity in the quarter was mixed, with good growth in a number of color segments, partially offset by the lapping of prior-year product launches in areas such as entry production color.

Overall, 2015 was a lighter product introduction year and we look forward to more launches in 2016, starting this quarter with the broad office product refresh, followed by a number of exciting production printing announcements we will be making at Drupa, the printing tradeshow which occurs every four years in Germany.

Document Technology margin of 11.8% was in line with our full-year guidance of 11% to 13%. Ongoing disciplined cost base management and the flexibility of our business model were able to partially offset the higher revenue decline, negative mix from lower supply and higher pension expense.

Moving to cash flow, we had a strong close to the year for our operating cash flow and a very good full year for free cash flow, which was \$1.3 billion. This enabled us to continue to invest in select growth opportunities and return value to shareholders through repurchases and dividends.

Cash from operations was \$878 million in the quarter, and \$1.6 billion for the year, in line with our full-year guidance. Q4 cash generation was roughly flat to the prior year, and reflected higher working capital contribution, higher discretionary pension contribution, and normal strong quarter 4 seasonality. Investing cash flows were a \$[19] million use with \$80 million spent on CapEx and \$9 million on acquisitions, partially offset by proceeds from surplus property sales. Cash flow from financing was a \$278 million use, including debt reduction of \$199 million and \$77 million for preferred and common stock dividends. Our cash balance at the end of quarter 4 was \$1.4 billion, providing us with flexibility as we enter 2016.

Turning to our capital structure, we ended quarter 4 with \$7.4 billion in debt, a \$200 million reduction in the fourth quarter, and a \$374 million reduction for the year, consistent with our expectations. Applying 7 to 1 leverage on customer financing assets, our allocated financing debt at the end of quarter 4 was \$3.9 billion, leaving core debt of \$3.5 billion.

We continue to manage our capital structure to maintain credit metrics consistent with our investment grade credit rating.

Turning to capital allocation, 2015 was another year of strong capital returns to shareholders. We repurchased \$1.3 billion in shares, resulting in almost 10% reduction in shares outstanding. We also delivered \$326 million in dividends, which included a 12% per share increase to the common stock dividend. Over four years, we have almost doubled our common stock dividend when including the 11% increase we announced today.

So in total, we have returned over \$1.6 billion to our shareholders, greater than free cash flow of \$1.3 billion with the incremental capital coming from part of the ITO sale proceeds. We are steadfast in our commitment to return capital and be good stewards. And we have a strong track record to back up that commitment, having returned greater than 50% of free cash flow to shareholders each year over the past five years.

For 2016, we plan once again to deploy greater than 50% of our free cash flow to shareholders through dividends and share repurchase, while balancing our need to manage our debt to a level which is consistent with our investment grade credit rating. We also intend to support our longer

term growth objectives and plan to invest \$100 million to \$400 million on acquisitions, with the focus continuing to be on expanding our capabilities in attractive market.

Before reviewing our 2016 guidance, I would like to highlight a few reporting changes we will be making beginning this year. These changes will bring our reporting and guidance practices more in line with our peers. I will briefly summarize the changes and note that we have a full explanation on slide 25 in the Appendix.

We will exclude three additional items from adjusted earnings to give a clearer picture of underlying operating performance. These items include restructuring expenses, certain retirement-related costs, and transaction costs from the planned separation and strategic transformation. Retirement-related costs will also be adjusted out of our segment results, and we are moving the student loan business that we are running off from the Services segment to the Other segment.

Finally, starting in 2016, we will include developing markets within our constant currency calculation to give a truer picture of our constant currency revenue performance. We have additional information on these reporting changes in the Appendix, including revised results for 2015 that will provide a comparable basis for 2016.

Moving to our 2016 guidance on this basis, we anticipate for our constant currency revenue to decline 2% to 4%, with flat to 3% growth in Services, more than offset by declines of 5% to 7% in Document Technology. At January 15 spot rates, we anticipate a negative currency impact on revenue of 1% to 2% for the full year, with a higher impact in the first half than the second.

Considering the uncertain macro environment, we don't expect our revenue to deviate substantially from trend. But we do expect modest improvement in both segments, as we move through the year and map the onset of some headwinds in both Document Technology and Services. We expect Document Technology margin to be roughly in line with 2015. That is within a 12% to 14% range, excluding retirement-related costs. We expect Services margin to improve, and be in a range of 8% to 9.5%. Adjusted earnings guidance of \$1.10 to \$1.20 represents a 3% to 12% growth from 2015.

Finally, we expect to generate operating cash flow of \$1.3 billion to \$1.5 billion, and invest \$300 million in CapEx, yielding \$1 billion to \$1.2 billion in free cash flow. This guidance is below 2015 cash flow, as it includes settlement outflows associated with our decision last quarter to not fully complete the Health Enterprise Medicaid platform implementations in Montana and California, as well as a higher-than-normal level of restructuring as we implement our strategic transformation program.

Transaction-related costs associated with separation are still being estimated and are not yet reflected in our cash flow or GAAP earnings guidance.

For quarter 1, we expect adjusted earnings per share between \$0.21 and \$0.24. So, to summarize for quarter 1 and full-year 2016, we have set achievable objectives that reflect, first, improvement in the business tied to the actions and investments we've made over the past year. Second, prudent expectations, given economic uncertainties and headwinds. And finally, continued investments in the business, and implementation of the first year of strategic transformation activities that will further prepare the Document Technology and BPO businesses to be strong standalone companies.

With that, I will hand it back to Ursula to wrap up.

Ursula Burns - Xerox Corporation - Chairman and CEO

Thanks, Leslie. Let me recap and reinforce a few key points.

First, this is an executive team committed to enhancing value for Xerox shareholders. And with the support of our Board, we are taking bold steps to do that, by separating into two companies and undertaking a transformative productivity and efficiency program.



Second, the plan to separate into two strong independent companies is the right step forward for Xerox as each company will benefit from enhanced focus, a lower cost structure, and an appropriate capital structure. Each will have the resources and focus needed to capitalize on unique growth opportunities and an operating model and cash flow characteristics to create value and thrive in the sector.

Finally, we are fully committed to becoming a much leaner and more efficient organization, both at Xerox in 2016, and continuing on at the two companies in the years after. These efforts will dramatically improve the way we do business.

Thank you for joining us today. Our efforts to transform Xerox are underway, and we look forward to communicating our progress in the coming months.

With that, let me turn things over to Jennifer, who will open it up for questions.

Jennifer Horsley - Xerox Corporation - Director, IR

Thanks, Ursula. Before we get to your questions for Ursula and Leslie, let me point out that we have several supplemental slides at the end of our deck which provide more financial detail to support today's presentation and complement our prepared remarks.

For the Q&A, I would ask participants to limit follow-on and multipart questions so we can get to everyone. At the end of our Q&A session, I will turn it back to Ursula for closing comments.

Operator, please open the line for questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) George Tong, Piper Jaffray.

George Tong - Piper Jaffray & Co. - Analyst

Ursula, can you provide some examples of how splitting the business can improve execution and drive better Services results?

Ursula Burns - Xerox Corporation - Chairman and CEO

I think that there are probably three areas that I can refer to. They will be a mix between both Services and the Technology business, only in the Services, I'm sure. The investment profile that we will -- that we have been making and we will need to continue to make is to invest more in automation of our Services delivery infrastructure. Those investment needs obviously compete with other investment needs in our Tech business, and we would be able to actually focus on those investments more, pointedly more, just more.

It's a big focus of ours, and as the market has changed, we realized that we have to make more investments there: automation, cloud-based services, service as a service offerings, etc.

Second is on talent. Interestingly, this is both businesses. The dynamics of these two businesses: one grows, one doesn't grow that much; one throws off a lot more cash, the other one doesn't. Actually, at the leadership level, we will be able to actually have more refined incentive structures around the leadership of these two companies that align very well towards their dynamics and their growth profile.

And the third is around how we operate outside of the United States. It's one of the areas that we put a lot of energy in our Services business, trying to actually piggyback on the infrastructure of our Tech business. That is probably one of the most difficult areas for us to break into, and now we will be able to, interestingly enough, focus back our Tech business on taking care of the Tech sector and be very selective in how we expand further outside the United States in our BPO business.

Those are three areas of difference.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thank you. I have one question on the quarter, and then one question on the transaction -- or what you're doing.

The first is just on the quarter. Can you talk a little bit about the lower supply sales and how we think about that? Is that -- was that sort of distributors or was that usage? What was sort of in there and how are you thinking about supplies and usage as we go through 2016? And then I have a follow-up. Thanks.

Leslie Varon - *Xerox Corporation - VP and Interim CFO*

Sure, Shannon. So let me start first of all by reminding everyone that unbundled supplies in Xerox represent just 20% of our Document Technology revenues, different from any of our competitors, because we sell so much of our supplies as part of a bundled contract. With regard to the lower supply sales in quarter 4, it was in the US and had to do with resellers stocking levels. So, what we saw in quarter 4 was a lower level of stocking at the reseller level than we had in the year-ago period. And that typically reflects some combination of the following factors: lower end customer demand, given the fact that we have had weaker equipment sales through that segment earlier this year; reseller cash management; and the level of competitive discounts that resellers choose to take advantage of versus the price discounts on the Xerox level.

So, it was unusually weak for us in quarter 4. We do expect better performance in quarter 1 and going forward. But, we expect supplies revenue will continue to be pressured, given the lower level of A4 equipment sales. Did you have another question, Shannon?

Shannon Cross - *Cross Research - Analyst*

Yes, if you could just sort of help us walk through. If we think about \$1 of earnings for Xerox right now, and then we split it, and then we obviously know the margin differential, and you have given guidance in that between the two businesses.

But can you sort of help us walk through on the Other line item, where you think things will kind of play out? I am getting a sort of \$0.70 to printing and \$0.30 to BPO. That is very much a squishy number, but just any color you can give us on that. And then also from a cash flow perspective, how we should think about how cash flow has come from the two businesses, because we kind of know what they were like in 2009. But, if we can get an idea of sort of how you are thinking about it now, that will be really helpful. Thanks.

Leslie Varon - *Xerox Corporation - VP and Interim CFO*

Shannon, I will start by saying that more of these details will become clear as we go through the process to separate during the year. So I won't give you specific answers now, but I will remind you that the margin in the Document Technology segment is higher than the margin in the Services segment. And the margin in the Document Outsourcing portion of the Services segment is above the segment average, which means BPO is obviously below.



So that should give you some sense us to the profiles of the margins in the two businesses going forward.

With regard to cash flow, I think you know that the Document Technology business and the Document Outsourcing businesses are very cash-generative businesses. And the BPO business is less cash-generative and is more in an investment and a ramp up growth mode.

Operator

Brian Essex, Morgan Stanley.

Brian Essex - Morgan Stanley - Analyst

I was wondering if you could give us a little bit more detail on the process that you went through, how these decisions were made. And then, if you could follow up with the management structure that you anticipate as you walk through the transition process, including what we can expect at the very top leadership level, current Presidents like Bob Zapfel and Jeff, and how they are going to fit in, as well as on the CFO search side, and how you anticipate staffing the financial side of the business.

Ursula Burns - Xerox Corporation - Chairman and CEO

Pretty good questions. Let me start with the process. In October, actually before October, but in October, we spoke to you about undertaking a review, a structural review that was focused on our portfolio of offerings and our capital allocation structure and process. That was in full swing by the end of October and included our Board, the entire management team and our Board of Directors, and some advisors that we had from the outside. And the intention there was to take a look at not only our internal business, but, as importantly, the markets, the trends in the markets, trends in segments of the market that we are highly invested, healthcare, transportation, these areas. Very contemplative, steeped in fact and data, facts and data, and just a very good bottoms up process.

That process lasted until -- just recently ended actually, and we made the decision in the middle of January to separate into two companies and do a separation. So that was it.

We had no external process pressure on that, which has been reported a lot in the news. Icahn was not engaged at all in the decision-making process, so I am pleased with that. We came up with this decision based on market trends, based on our strengths and weaknesses, based on the performance that we had in these two businesses, based on the current dynamics and thinking by shareholders, by our customers, etc. Shareholders meaning how they value allocation methodology.

As far as management goes, one of the things I will start with, me, as I've gotten this a lot. One of the things that was removed from the process early as we went into this that I did with the Board was to move me out of this discussion. The decision about whether or not we split into two companies or what process we take on a go-forward basis cannot be based on an individual or with any worry about an individual. So literally, I said let's go through this kind of agnostic of individual and let's manage it from a process standpoint.

The good news is that we did that. I have a great relationship with the Board. My future will be contemplated. I will make some recommendations to the Board, and my future will be contemplated as part of those recommendations. I am both confident and solid in that.

And then in the next year, by the way, we have to spend a lot of time doing three things. One is taking \$600 million, \$700 million annualized in cost out of the business. We have to split the Company into two and we have to deliver the 2016 plan -- not small activities.

As far as Services leadership, if there is one thing that we will change from a structural standpoint today, that we know today, even though it is not implemented today, is that the Services leadership will come from the outside.

But I want to make sure that we are clear. We have -- the BPO leadership will come from the outside.

I have a President who runs the Services business today. He is a very valued member of our Company. He does a good job. We expect -- I hope that he continues to operate in the business on a go-forward basis, but the new CEO of the Company will come from the outside.

CFO, we put the CFO on the back burner. We didn't totally stop it, but we put the search on the back burner as we went into the structural review. This is a place where we will have strong internal candidates as well and some external candidates. So it is a good process to go through that, and we will have one and then eventually two CFOs as we go forward.

I am pretty comfortable with that process as well. I think I got all of the questions answered, I hope.

Operator

Matt Cabral, Goldman Sachs.

Matt Cabral - *Goldman Sachs - Analyst*

So, on the Document Technology business, now that you will have a more focused printing company as one of the few industries going forward, can you talk about your views on the opportunities for consolidation in the market and if Xerox will look to participate in any of that consolidation going forward?

Ursula Burns - *Xerox Corporation - Chairman and CEO*

Most of our focus in this area has been on distribution consolidation and we are still actively pursuing that type of activity. We found that our brand is strong and our offers are very strong. We just have to get more people to carry them to the market. So that will be our primary focus from an acquisition standpoint. That was one part of the question. What was the second part, I'm sorry?

Leslie Varon - *Xerox Corporation - VP and Interim CFO*

I think that was it. I would just highlight a couple of additional things. On the distribution side, as Ursula said, we have been adding to the portfolio of businesses in the Global Imaging fleet inside of Xerox, and Global Imaging was an acquisition we did in 2007. You know it has been extraordinarily successful and had a very, very successful 2015.

In addition to that, we continue to pursue opportunities to expand our offerings in Document Technology, which includes the acquisition we did of Impika a few years ago in order to position us more strongly up in the high end of inkjet. So, we see further opportunities in those kinds of areas.

Matt Cabral - *Goldman Sachs - Analyst*

Very good, thank you.

Operator

Ananda Baruah, Brean Capital.



Ananda Baruah - *Brean Capital, LLC - Analyst*

Ursula, we'd just sort of just love to get what your initial view is, current view is on how you guys would view I guess sort of the value pitch. Like really, what is the pitch to investors, or will it be for the Doc Tech company? Given the revenue growth profile, margins are really solid, cash flow is awesome, obviously.

But as investors begin to develop themselves a view of the Doc Tech Company standalone as investable assets, how would you like for them to think about it, given the constant currency revenue growth profile of the Company?

And then just sort of a sub question to that, and this will be it for me, anything that you can talk about that could be additive over time to the revenue growth profile would be, at least philosophically, useful as well. Thanks.

Ursula Burns - *Xerox Corporation - Chairman and CEO*

I will start with service with the BPO Company. And then get into the Doc Tech company. BPO Company, think about nimble expansive, so growing. A really keen focus on operational expertise and flexibility, flexibility and a capital structure and allocation policy that is aligned towards investing for growth.

Our Services -- our Technology business is a market leader, cash-generative and has a capital allocation strategy that is focused on returning a high proportion of that capital to shareholders. It will likely, it will have to be investment grade. We are going to push hard for that to be the case. And invest and make sure that we set up the Company that way, because it has a financing business that's captured, as you know, and will benefit from the investment grade rating.

And not look at the top line in total. You have to look at the top line in sub pieces, and we will be able to have a better explanation and more discussion about that as we separate the Companies. Meaning that we will start speaking more about the graphic communications business and what happens underneath there and how it is transforming, and how we are leading that transformation. How our Document Outsourcing business is growing, focused, and how we are leading transformations there. So, a little bit more focus on the dynamics underneath the business that will help us sell both of these Companies -- the differences around both of these Companies.

Leslie Varon - *Xerox Corporation - VP and Interim CFO*

If I could just put a point on a couple of things that Ursula said specifically to Doc Tech, because I think the growth opportunities on the BPO side are clear. If you step back and look at the Doc Tech market, it is a \$90 billion market. When we combine the Document Outsourcing growth with the Doc Tech segment, what you will see is that our performance was essentially down 4% at constant currency in 2015.

So, it is clearly under pressure, but certainly the developing market economies were under pressure big time in 2015 as well. So, I will call it modest decline. And, as Ursula said, with important pockets of opportunity both in Document Outsourcing as well as, for example, in Graphic Communications.

So, this is an area where we believe that a more focused business will be able to make selective investments in attractive growth markets and improve the performance on the top line.

Operator

Keith Bachman, BMO Capital Markets.

Keith Bachman - *BMO Capital Markets - Analyst*

I feel like I am always following Ananda's question. I wanted to ask you two questions. I agree with the characterization that the Services business or the BPO parts of the Services business is probably not congruent or leveraging the quarter printer business. With that said, I am not sure anything has really changed.

I'm curious what you really learned. In other words, why did you buy it?

And then secondarily, the part of the strategy over the last couple of years within the broader context of Services has been M&A and I think Xerox has been -- has not been able to generate the growth through inorganic means within the M&A side of services.

Is that a pricing issue or structural issue? What's the process? And, as you are going through separation this year, will you have the ability to go ahead to engage in M&A even as you are trying to go through this separation? Thank you.

Ursula Burns - *Xerox Corporation - Chairman and CEO*

Let me take both of those and it will be in a little bit of a conversational tone. Let's start with the M&A. The M&A piece.

We have acquired in the first couple of years of our M&A journey, about \$350 million worth of assets for a couple of years in a row, in the last two years have been -- have not been able to generate that same level of performance. We were always shooting for more.

By the way, we have -- it is not not seeing opportunities. The good news is that we do see some. We also have -- but we do have very specific requirements and high hurdles for accepting an M&A deal. I don't expect that those hurdles will go away at all.

So, we are guiding down, as you can see, \$100 million to \$400 million in M&A, because we do have, as I said, a high hurdle. I think we will be able to get somewhere in the middle of that range, maybe to the high end if we are a little bit lucky there.

So, no strategic change in M&A, no strategic change in our desire to acquire. A little bit narrow, and we talked about a little bit less diversified in our offer, definitely focusing on Commercial Healthcare, definitely focusing on Transportation in those assets, focusing a little bit in those two areas and maybe others and going internationally.

So, but I don't think that there is a big change. We are not having a big change in our strategy for M&A, and we are going to keep trying. As I keep saying, I have money to spend. I'm hoping that we can actually use it more frequently than we have in the past.

As far as what has changed, seven years ago was -- I said this a little bit earlier. Seven years in business is like seven years in dog years. A lot has changed in seven years. The healthcare market has changed. Not only in how healthcare is provisioned and paid for, which is -- has a big effect on us. But in the provider area, how much consolidation there has been, literally buying and selling to very large customers, so -- companies. So our customers have changed.

International markets have slowed pretty significantly and the dollar has strengthened pretty significantly. There have been a lot of shifts in technology and etc.

So, a lot of things have changed in the markets around us, and all that has done, they haven't changed the fundamentals of the two businesses. But they made it very, very clear that fitness and focus is at a premium right now. And that is where we have chosen to make our investments: fitness and focus.

I need to invest a little bit more in our Services business, particularly as the shifts are happening in there, in -- as a service and process automation, etc. And we have to be very pointed in our focus in Document Technology and make sure that we continue to drive efficiency through that value chain, etc.

So we didn't look back. We didn't spend a lot of time in our analysis looking back on what we did seven years ago. We spent all of our time looking forward, and we are very confident in our decision on a go-forward basis.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - JPMorgan - Analyst

Great, thanks for all this detail. Long-term and short-term question; I guess the short-term one, just the incremental savings from the restructuring that you are announcing, how much of that will we see it as incremental in 2016? Is that net of any cost dys-synergies we might see from the separation? And then just the longer term question on the BPO front, when you are talking about 5% industry growth, do you think, when you did your long-term study on the strategic review for that asset, do you think that the current business mix can get to a 5% growth rate with greater focus and whatnot? Or do you see that potentially a big shift in the business mix to get there? Thanks.

Ursula Burns - Xerox Corporation - Chairman and CEO

I would start with the second question and do the first part of the first question and then Leslie will take over. Second question, we haven't really looked at the specific growth rate and whether we can get to 5%. But I can tell you one thing. That is that we can grow higher -- faster than we are growing today. There's no doubt about that.

Particularly as we remix our portfolio, we are heavily mixed towards customer care. The business by the way, we can actually grow the business a little bit faster than we are growing it today. That business doesn't have a margin profile that we actually want to expand too much further, so we are being very selective in how we go forward in customer care and picking our customer care accounts and engagements that actually are broader than what we would call bare customer care.

And the rest of the business lines, Transportation for sure and Commercial Healthcare, and even Government Healthcare, the core portion of it, are growing at rates that can support a 5% range. But we have to do some portfolio mixing to make sure that we can actually -- mixing and timing to make sure that we can get there over time. And you will hear more about it as we do even deeper work in the separation process and looking at the BPO business.

As far as -- I just wanted to also transition to this \$2.4 billion and make sure that we are clear about what we are doing here. Normally in Xerox, so every year in Xerox, we do a fair amount, as you know, of restructuring and remixing of how we spend money. We get some productivity benefits from our vendors and we get the rest of the productivity benefit from [us].

This \$2.4 billion is foundational in three basic forms. One, we'll get some of it from our normal interactions with our suppliers to make sure that they actually drive some of their productivity and give that to us. We think that will be about \$1 billion over the three years, plus or minus -- give or take some. We also get naturally every year a level of productivity from both our Tech and Services business foundational.

And what we are explaining, and what we are doing with this transformation was taking that first part and the second part and adding on top of it a \$600 million additional savings program. And we are doing that by changing -- focusing on changing how we work. This is not -- and it's a big -- we are kind of readying ourselves for the markets in the future and the business in the future, and trying to actually shift out, take out an additional \$600 million as we go forward.

And I will have Leslie go through some of -- a little bit more line item here.

Leslie Varon - Xerox Corporation - VP and Interim CFO

Yes, so Tien-tsin, just to come back and clarify a couple of things. When Ursula was talking about customer care, it is clearly our objective to expand the customer care margin. It is not our objective to increase the proportion of customer care business inside of our BPO business.

So, we certainly want to grow customer care. We want to grow the other higher value offers more quickly so that we can drive the BPO margin up.

With regard to cost transformation, we save about -- we capture about \$600 million a year, which is roughly 4% to 5% kind of annual productivity. In addition to that, in 2016, we are expecting an annualized savings from this transformation program of about \$100 million. That will be captured from a variety of focus areas, things like the structure of the organization so we can start the two separated Companies lean, which will include both layers of management as well as support functions and infrastructure. It will include labor productivity and taking advantage of automation, and changing how we deliver services to our customers. So, our expectation is that we will invest about \$200 million in restructuring this year into 2016.

And since we will be doing the transformation throughout the year we are really just starting, we expect the savings that we generate in 2016 will be around \$50 million from the strategic -- from year 1 of that incremental program.

Jennifer Horsley - Xerox Corporation - Director, IR

Thanks, Tien-tsin. Operator, I think we have time for one last question.

Operator

Jim Suva, Citigroup.

Jim Suva - Citigroup - Analyst

Thank you and congratulations. It seems like you definitely have done a lot of work, and a lot of work ahead. I have two questions, one fundamental operations and the other one on the separation.

The first is on the fundamental operations. Did I hear correctly -- the renewal rate was around 78%? And I believe that seems a little bit normal. Was there any cause behind that? There was something we should be aware of?

And then on the separation, the \$2.4 billion, I believe that is all about the savings. The question is, have you identified the amount of cost associated with the separation? Like do you need an additional ERP system, or human resource systems? Or are these actually already run right now on two different systems and just wondered if there is separation cost, or if the \$2.4 billion in savings is net of those costs. Thank you, and again congratulations on all the news.

Leslie Varon - Xerox Corporation - VP and Interim CFO

So Jim, thanks so much for the questions. Let me start with renewal rate, and then I will talk about the synergies. So you're right, the renewal rate was light in quarter 4. And it was at 78%, although for the year the renewal rate was up three points to 84%. There was one large renewal in the quarter that would have been unattractive for us and therefore we walked away.

With regard to dys-synergies, we haven't yet spoken about dys-synergies. But in some of the areas that you are poking about -- poking at, there has not been a whole lot of integration in, for instance, IT, between the ACS acquisition and then and the legacy Xerox.

So we will talk more about dys-synergies as we go forward. But we certainly expect the benefits of the separation and inclusive of the strategic transformation to more than offset any of the dys-synergies.

Ursula Burns - *Xerox Corporation - Chairman and CEO*

Thank you for joining us and for your questions. I have a couple of things to close on.

First, we are creating two strong market-leading companies, positioned to capture unique industry opportunities and maximize value. Each Company will have resources that are appropriate and focus to capitalize on both opportunities in their markets. We are going to leverage each Company's distinct growth profile, operating model, cash flow characteristics, etc. And, very importantly, during this year, 2016, it's about delivering 2016. We are really focused on that. We closed 2015 well, and I want to make sure that we carry that into 2016. We will keep you up-to-date on how we are progressing as we speak to you throughout the year.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Have a great day, everyone.

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