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EDITED TRANSCRIPT

XRX - Xerox 2014 Investor Conference

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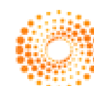

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PRESENTATION

Unidentified Company Representative

Good morning, ladies and gentlemen, and welcome to the Xerox Corporation 2014 Investor Conference hosted by Ursula Burns, chairman and chief executive officer. She is joined by Kathy Mikells, executive vice president and chief financial officer; Bob Zapfel, executive vice president and president Xerox Services; and Jeff Jacobson, executive vice president and president Xerox Technology.

During this conference, Xerox executives may make comments that contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 that by their nature, address matters that are in the future and are uncertain.

These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially.

Information concerning these factors is included in the company's most recent annual report on Form 10-K and its subsequent quarterly reports and Form 19-Q filed with the SEC.

We do not intend to update these forward-looking statements as a result of new information or future events or developments except as required by law.

(Video Presentation)

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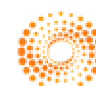

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Ursula Burns - *Xerox - Chairman & CEO*

Good morning. I'm Ursula Burns, the chairman and chief executive officer of Xerox, but that's kind of obvious for me at this point. We have a full room here at the Stock Exchange and a large number of people who are joining us via webcast. Thank you all for joining us and for coming.

Before we officially begin, I'd like to take a moment to thank our veterans along with the men and women in uniform who are serving our country in honor of Veteran's Day.

We have two objectives today, the first is for the team and I to share Xerox's perspective on the business environment and the attractive opportunities that it creates. And second, we will discuss our plans for increasing value for our shareholders and for our customers. We have a lot to cover so let me get started.

Xerox competes in a sizable, growing market, about $600 billion, growing at about 5%, most of that growth, all of that growth comes from our services segment. This growth is driven by the amount of change that's happening in the world but also in business, change that's driven by new technologies, ongoing policy shifts here and around the world, changing demographics and the fundamental need across both the private sector and the public sector to do more with less.

As the business environment becomes more complicated and as technologies shift, companies are increasingly looking to partners like Xerox to help them manage their complex business processes basically to help them simplify.

These places are the strengths of our services business. The technology market that we help to create remains very attractive and we are the market leader and continue to define its future with a focus on innovation. And the time when governments and businesses from healthcare to high tech are looking for more value from their business partners Xerox is well-positioned to deliver.

We are increasingly bringing process expertise, deep industry knowledge and broad IP from imaging to analytics to our customers. By the end of the day, you'll see some examples of all of this.

So you will hear about the details of my strategy, of our strategy from Jeff, Bob and Kathy when they come up in a little while. But at the highest level, the Xerox strategy is to apply technology and innovation to transform the way that work gets done.

That has been our purpose from the very beginning of this company. We must lead in the industries that we operate in, so we are focused on and committed to driving operational excellence across the business but especially in services, but we have implemented a new model that Bob will talk about in a little while.

Xerox has proven over the years that we have the discipline and ingenuity to create products and services that differentiate us from our competition. For example, we're doing some really exciting work in transportation where we're applying innovation and analytics that we derived from our research and imaging to solve problems around traffic congestion, parking and urban transportation in general.

Customers want to work with Xerox because of that added value. Our shareholders want to invest in us for that same reason. And it's also the reason why people come to work with us and why they stay. I have the confidence that's unbelievable in the business model that that model will thrive today and into the future.

To drive earnings expansion and sustainable shareholder value, we are increasing our mix towards services. Services will make up 2/3 of our revenue by 2017. We're not taking our eye off the ball and Document Technology. We are managing the Document Technology business for continued leadership while deriving profitability and cash.

Across both businesses, we are focused on operational excellence at the broadest -- in the broadest sense and the broadest definition. And the focus in services is intense. Operational -- operational excellence in services will drive margin expansion. This is our firm belief.

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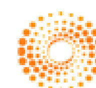

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In Document Technology, operational excellence is part of the DNA, it's one of the reasons why we have such good margins and we are capitalizing on that knowledge and that expertise and we're transferring those assets over to services.

We have a new organizational structure and an infusion of talent into services from our Document Technology business and from the industry at large.

At last year's conference, I gave you a brief update on 2013 and I'll do the same for 2014. The year is not over yet but here's a brief report card. We are managing our portfolio. We are acquiring to maximize strengths and to fill in any gaps that we have. We acquired ISG Holdings, for example, StrataCare, which brings cloud-based Workers Compensation solutions to our insurance portfolio. Our acquisition so far this year totaled about $300 million as opposed to about $150 million last year.

Innovation continues to be a core asset for us and we've unleashed our researchers and our scientists to innovate around services. In fact, this year, close to half of our patent filings are in services.

Our continued focus on technology gives us a proud distinction of being the equipment share leader. And our production inkjet expansion through the Impika acquisition has brought new innovation to an attractive market for Xerox.

In addition, we recently announced our next-generation managed print services to help clients take control of their information and their workflow using automation technologies that increase productivity, mobility, security and sustainability.

One of our newest offerings is called Digital Alternatives, and you'll hear a little bit about that when you go down to your learning sessions over lunch.

I spoke about the new operating model in services. In addition to that model, we have a management team that's focused on driving profitable growth.

And the transitions that we've made in the management team this year have us operating with more focus and determination so that we can accelerate the progress that we're making.

Bob Zapfel took over services in the spring and has hit the ground running. He's a great addition.

Jeff Jacobson assumed the leadership in technology a few months ago. He was in the business for a couple of years running graphic communications and he's exceeding all of my expectations.

And Kathy Mikells continues to be an amazing value-add. She has expertise and insight to -- has expertise and insight to our operations that is unmatched.

In addition to that, we continue to focus on our shareholders. For them, we increase our dividend by 9% this April and we repurchased almost $900 million in shares through October.

Our message to you is the following. The Xerox today is well-positioned to grow and we are investing in areas where we have capability, we have scale and where there is market attractiveness, all playing to our strengths.

We are applying innovation for customers. We are improving our services performance with new talent and new operating model and a focus on operational excellence, all aiming to improve services revenue growth and margins.

And we are leading in document technology providing strong profitability and strong cash. And we are building value for our shareholders through shareholder-friendly capital allocation strategy.

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We are moving aggressively on our journey to be the most sought after customer partner and place to work. So I have confidence that the business model that we've built will bring sustainable success in the near-term and over the decades to come.

So let me go over the agenda and talk to you about the rest of the day. Jeff Jacobson, the president of Xerox Document Technology will give us an update on that business. Bob Zapfel, the president of Xerox Services will share his perspective on the services business. Kathy Mikells will go through the financials. And then we'll take your questions, summarize the day and go to lunch and to learning sessions.

So before I call up Jeff, I want to -- I want you to look at a really short commercial that we have. Can you roll the piece?

(Video Presentation)

Jeff Jacobson - *Xerox - President, Xerox Technology*

Thank you, Ursula, and good morning, everyone. We are very fortunate to have the leading position in the document technology space. We have an experienced energetic team that leads and manages this business very tightly. In fact, it's this knowledge of the business and the commitment of our people which allows us to respond to the market dynamics very quickly.

We have a very broad portfolio and an expansive market reach. In fact, to someone who just joined Xerox a little under three years ago and who competed against Xerox for many years, I tell my team all the time, if you want to play in this technology space, there's no better place to be than where we are.

There is no question this is a competitive business but it's an exciting and vibrant business. We will continue to invest and drive within the growth areas which I will delineate over the next 20 minutes and will continue to prudently navigate all the way through those areas which deserved to be harvested.

This is a very large marketplace, at about $91 billion, and it's one we know very well. It's declining at about 1% per year and the market is performing as we would have expected it to over the last few years.

We do see opportunities which I will lay out for you. Let's take each segment of the market one by one.

In the office environment, non-document outsourcing, it's a $66 billion market declining at about 4% per year. Part of that decline is certainly due to customers migrating over to document outsourcing and managed print services.

If we break down the $66 billion in the entry space which is about 2/3, but within entry, we have the standalone printer functions, standalone printers at about $26 billion declining at about 5%.

A growth area in the marketplace, our multi-function devices where we have some new product introductions and that's about $17 billion growing at 5%.

And then certainly in the A3 entry space where we have a leadership position, it's about a $23 billion market declining at about 5%.

If we move over to document outsourcing at about $19 billion, within document outsourcing of the $19 billion, we have managed print services at about $11-1/2 billion, centralized print services at about $5-1/2 billion and the workflow automation at a little over $2 billion. And the workflow automation is growing at about 20% per year.

Document outsourcing in totality is growing at about 7%. And if we segment that by market, the large enterprise is at about 2% growth while the SMB market is growing at about 10%.

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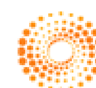

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If we look at production graphic communications, $6 billion market, growing at about 3%, now, with that, 75% of that $6 billion market or $4-1/2 billion is production color. Production color is growing at about 8%, and within production color, we have the production inkjet business, about $1 billion, growing at 20% per year, and as Ursula mentioned, we made an investment in Impika last year.

A headwind to the overall production space which is growing 3% is where we do participate in the high-end mono business. That's now down to about 8% of our total Doc Tech revenues and that marketplace is declining about double-digits.

As you see in the office environment as well as in managed print services, the SMB market is about 71%, declining about one point while large enterprise makes up 29%. The North American and European markets are declining 3% and developing market is growing at 1%.

From a financial trend standpoint, our revenues have been relatively stable the last few years, declining at about 6% per year. However, if you were to take Document Technology and Document Outsourcing to combine them, we would mitigate that decline from about 6% to about 4%.

So while we are declining a little more than the market rate of about one point versus our four points, it's actually the reason for that decline that gives me some optimism of how we will mitigate those declines in the coming year.

If you remember last year, we financed receivables. We had finance receivable sales in 2013 and therefore, we didn't have that financing income in 2014. That's worth about one point to us. Much of that will run off in 2014. We'll have a little overhang in 2015 but we see about a point improvement there.

Also in our developing markets, so our developing markets or Middle East and Africa, Eastern Europe and Latin America, that market as you saw has been growing one point or 1%. We actually have managed that business at 2X return on sales of the average for that marketplace.

80% of the units in that marketplace are A4 entry, and typically, when you sell an A4 entry device, you'll sell it at a little lower margin and you'll make it up on the post-sale. With some new product introductions we have, we believe we have the ability to significantly increase the number of A4 units while preserving our profitability, getting the post-sale, mitigating that 10% reduction that we've been seeing while the market is growing 1% and getting much closer to the market reach.

From a segment margin standpoint, we're very pleased with the steps we've taken in growing our margins by 280 basis points from 10.8% to 13.6%. Certainly, we have been aided by transaction currency as well as pensions in 2014.

However, one of the hallmarks for us this year which I'll talk about in some detail later is our operational excellence and productivity programs. And even if you were to back out the tailwinds of transactional currency as well as pensions, we still would have performed above the high end of the 11% guidance that we have previously given.

So certainly in today's world, every business operates in a competitive environment and we are certainly no different. But our team thrives on operating in a model like this. And for those of you whoever functions in an operating business and you've seen people who use the P&L, who use their balance sheet and uses that to drive their strategies, this is what this team does.

We do it with tactical precision, and quite candidly, we probably do it as well as any team I've ever had the honor of being affiliated with. What I'd like to do now is take you through our strategic plans and why I believe in this environment we could actually mitigate the revenue declines that you've been seeing.

When Ursula interviewed me about three years ago, she said, "Jeff, you know, we have all the tools we need and we are the leader in graphic communications. But I think there is so much more that we can do and I want to put a stake in the ground because I believe this is where we can be the clear, clear marketplace leader."

And we've talked about the 50 trillion offset pages or the 50 trillion pages that are printed a year in offset and some in packaging that will be coming over to digital, and that over the next decade, we want to capture as many of those as possible.

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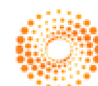

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And this is certainly an industry that's moved from what it used to be many years ago when you would print millions and millions of copies and then distribute them all over the world to a digital world of distribute and print. So we are putting a stake in the ground to graphic communications and we will talk about that.

We also have the clear leadership position in managed print services. And I'm often asked, what drives managed print services, is it the device or is it the service offering. And the answer is it's a symbiotic relationship.

It's our devices with the great services we have with the open workflows. When we go into a competitive environment, we have open workflows and we can use those machines in the field and it's certainly as Ursula mentioned, our next-generation managed print services.

Where we go in with our assessment tools and we optimize our customers' print infrastructure, we work with them on security and integrating in their I.T. infrastructure and we certainly use our workflows to automate and simplify.

You also saw that we want to go into the SMB market. SMB is about 71% of the office and managed print service market now. We certainly have good reach and good penetration on a number of areas.

If you were to take our U.S. where we have our U.S. solutions providers, we have our North American inkjet organization and we have our Global Imaging business which we acquired about seven years ago in the year 2007 when they were $1 billion, and now, they've almost doubled their sale.

Those three channels make up about 50% of our U.S. revenues. If I go over to Europe with our European channel group of resellers, they make up about 50% of our European technology sales. But at the same time, we are definitely underpenetrated in some areas and certainly in the entry space and we're certainly underpenetrated in multi-brand dealer channels and that's where we want to and need to expand.

I already mentioned growth in developing markets, the market is improving by 1%, we've declined year-to-date by 10%. We believe we will lapse some of that, we'll put new entry products where 80% of the units sales in that market are A4 entry products and we believe we'll certainly be able to mitigate the declines we've been seeing and get much closer to what the markets are doing.

From an innovation standpoint, certainly, one of the lures which hooked me when I joined this company having competed against it for so many years was I always knew that Xerox will be at the forefront of technology.

This year, we have introduced 23 new products, new technology products plus workflow products that you will see. Along with our wonderful relationship with Fuji Xerox, we are investing over $1 billion in research and development every year.

And then as I said before, which I'll talk about in a little while, one of the hallmarks for us this year was certainly our productivity initiatives and operational excellence.

So when I joined this company, I knew we had a great portfolio, I knew we had great technology and expansive market reach, what I didn't know because I didn't meet the people yet was how are the people.

These are people that wake up every day energized. They want to satisfy their customer. They want to exceed their expectations. If they're in the factories, they want to have the most intimate supply chain that just flows through to their customers. So when you have the portfolio, the technology, the market reach and the people, you certainly have the ingredients for winning formula.

Thank you. We are certainly honored that analysts and industry associations have consistently recognized us for our technology and innovation. And these awards have been software, hardware, the channel and certainly document outsourcing.

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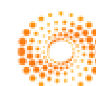

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In fact, just this week, Gartner updated its Magic Quadrant study which measures managed print services and managed content services. In fact, Gartner awarded us, Xerox, as the market leader in the ability to execute in completeness division. So we're very honored by that and it's certainly driven by our next-generation managed print services.

But though we love to receive the accolades from the industry, industry analysts, industry associations, what's the most important to us is how our customers feel about us. And our customers have rewarded us with 19 consecutive quarters of equipment sale revenue leadership in the marketplace because when you deal with customers every day, you truly understand when they decide to invest their dollars with you, they are placing the ultimate trust. It's their business and they trust Xerox for that.

They know each day that we will innovate and we will do everything we can to bring research and development to their doorstep as well as keep them at the forefront of technology.

Now, at the same time, while we're very proud of our market leadership position, what really energizes my team and I is that 79% of white space is the market share we don't have. And those are the opportunities that we are pursuing.

So as you've seen, we operate in large markets. I do contend that we have the broadest portfolio across entry mid and high. And if you will remember, last year, we introduced our new ConnectKey software which is software embedded across the vast majority of our devices and we're continuing to do that through our 2015 and 2016.

Our ConnectKey software drives productivity, cost, security, mobility and allows our customers and devices to interface with the cloud.

In fact, we've introduced 15 new workflow products this year and 19 new devices, many of which are for document outsourcing, and again, all these drive mobility, speed, security, quality and automation.

Just to mention a few of the products, as I've said, we've introduce 19 of them but I'll highlight four of them. In the entry space, A4, and the reason this is important, of that $66 billion, it does make up 2/3 of that entry space.

We introduced the new WorkCentre color device and mono device. So the mono was a 3655 WorkCentre product at 47 pages per minute and the color device is the WorkCentre 6655, that's 36 pages per minute. It's embedded with our ConnectKey technology.

And the beauty of both of those A4 products, it's not just for one segment. It's for our document outsourcing customers, it's for our enterprise customers, our SMB customers and our channel customers.

And then we want to continue to build upon our A3 leadership position where we have over 20% market share. And we've introduced the WorkCentre mono product at 5945 and 55 which runs at 45 and 55 pages per minute with new clean high-quality graphics and texts. And then our 7970 WorkCentre color product that runs at 70 pages per minute is 40% faster than its predecessor product and has enhanced scanning and finishing.

And as I mentioned, we have put a stake in the ground that we want to enhance our leadership position in the graphic communications and production space. There are 50 trillion pages printed per year, only 2% of those are digital today.

Now, people asked me, they said, "Jeff, if digital has been around for so many years, why it's only 2% digital?" And there were a number of reasons. It's about format size. The largest format size for digital press is typically about 1/3 the size of an offset press.

Commercial print is looked to put as much ink on paper as they possibly can. It's called ganging jobs. They print as much as they can and then they use their intimate finishing devices to put it down to a finished product. They run at speeds of 80,000 sheets per hour. Now what offset cannot do, they can't do digital, they can't do personalization, they can't do one-to-one marketing.

So what inkjet will do for the industry is inkjet will eventually get to those speeds and those price points which is why we had to put a stake in the ground and decided to buy Impika, a French company last year in Aubagne.

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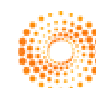

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With Impika, we have now been integrating the Xerox technology with the Impika technology, and let me just say, inkjet is in the very early stages. If you think about to iGen 15 years ago, that was in the very early stages and look at how far it's come in 15 years. Inkjet will have a similar lifecycle but we're very pleased about where we are now.

In fact, what I'd love to do is show you one of our newest installations, Data One, which is a wonderful customer in Europe. If you can view the video please?

(Video Presentation)

Jeff Jacobson - *Xerox - President, Xerox Technology*

Thank you. So in this space, we've introduced even new workflow offerings in our graphic communications production space and four new technology offerings. So as you can see from the slide, from an inkjet production and chip standpoint, we are the only company in the industry that has a solid ink offering as well as an Aqueous inkjet offering which is the Impika device.

Our iGen 150 which the technology has been there from an iGen standpoint for 14 years, the last two years have been the most successful years in the history of iGen and that's because we continue to take the platform, use automation, use automated color quality control and efficiencies where we are now in the highest photo book applications and customers in the world, in fact, three of the largest in the world, one in the U.S. and two in Europe. So when you order your holiday cards, there's a very good chance that we print it by Xerox, so please buy a lot, I'd appreciate it.

Lastly, within the production space, we actually have what's called entry production color. It's a space that in 2007, let's call it 100 pages per minute and under, that we really had the largest leadership share and the largest market share. Over the years, we lost a little bit of share.

We took a position two years ago that we're going to put a stake in the ground and get that market back. And we introduced the Versant 2100 just last quarter. And the Versant 2100 is designer quality. So when a designer says for a high-quality cosmetics ad, "I want to see certain flesh tone,' the Versant 2100 with its ultra high definition quality, we can do that. When it says, for card brochure, "I need that Maserati red," it will do that.

So I'm very happy with the orders we've taken just in the last two months. I'm happy to say that the iPhone 6 is not the only technology product that's on back order.

So one of the hallmarks for us this year has certainly been our demonstrated operational excellence, our productivity initiatives. You will notice that I say the word productivity initiatives and not cost reduction, because it truly is about driving quality and productivity throughout the entire value chain.

Document Technology and Document Outsourcing, we manage about $9 billion of cost. And people asked me and the reason I stressed it's productivity, they'll ask me, how much more headcount can you reduce. It's not just about or about headcount reductions. It' about how do you have productivity initiatives, and we have 100s of them throughout the entire value chain.

If I can save 3%, 4%, 5% on that $9 billion, that is huge for our bottom line and it makes us a more efficient company. So if I just pick out a few of the initiatives that we have, just in selling, who would think selling could be more productive?

When I joined Xerox a few years ago and I took over graphic communications, I wasn't pleased with the productivity we had in operation. We implemented a program of an extra two sales calls a day. We highlighted everybody's performance from top to bottom and we published the results.

We went back three years and looked at their performance. We looked at the number of sales calls, number of demonstrations and most importantly, the pipeline of customers they had and when we can bring them on.

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And for those of you who remember your days back in Psychology 101 when you turn the lights on, the Hawthorne effect does work and sales productivity.

From a global service standpoint, remote connectivity and diagnostics, what we do here is we embed engineering, technical service engineering into our products. So we're able to communicate with our customers even when their -- when their operations are running while they might not be standing next to the machine.

And in the event they do need service and a live person, they will call and speak to a trained field service technician before we ever dispatch anyone. In the old days, what we would do is dispatch someone, they do the diagnostic, they have to come back, get the parts, now, they're speaking to a trained technician who helps the customer get up and running usually within 15 minutes just over the phone.

In the event that cannot happen, at least then we dispatch a person, full diagnostics have been done and the service technician will have the parts on site and get the customer up and running.

If I look at things just on the global delivery section, manufacturing productivity, it's the largest part of our cost of goods sold. Again, if I can save three, four, five points there, we looked at reducing our product portfolio from a simplification standpoint to streamline our manufacturing, have more of our technology platform that does work for our document technology customers, document outsourcing, managed print services, SMB market, large enterprise and our developing market customers.

And even in research and development, we have streamlined a process to get these 23 products through the door quicker which candidly has enabled us to carve out about 50% of our R&D spend for new things in growth areas such as inkjet, managed print services, workflow automation, packaging and some other things that we're working on.

So in summary, you know, this is a business as I said that requires operators. It's a business that I feel we know very well. And I know a lot of people talked about secular declines in this industry and we can't ignore the facts of the numbers.

But at the same time, when you're sitting on a market leadership position at 21% and the 79% of the business you don't have and you look at the opportunities for growth in graphic communications with the 50 trillion pages that will eventually be moving over the next decade and let's say it's even 10 of those 50 trillion pages in the next decade, how many of those pages can we get?

In managed print services and document outsourcing, taking our next-generation managed print services to the next level and investing in that area, if we look at the SMB market where we're definitely underpenetrated in multi-brand channels, going out and establishing more relationships like that, in developing markets where we can increase the market share because we're declining at 10% and I know by putting more A4 devices out there, we can get closer to where the marketplace is.

The innovation is continuing to drive products through the marketplace, continuing to leverage that $9 billion of productivity opportunities and certainly energizing our people. We're very pleased with what we've done from a segment margin standpoint in 2014. I hope when I come and speak to you next year, I'll be able to say we're very pleased with what we've done from a segment margin standpoint and a revenue standpoint.

Thank you very much and I'd like to introduce Bob Zapfel now. Can you queue the video please?

(Video Presentation)

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Good morning. Thanks, Jeff. Ursula mentioned when she introduced me that I had the "hit the ground running". I'm glad to stop for a few moments and share with you our progress and the journey to really make Xerox Services a great business for our clients, for our employees and for the investor community as well.

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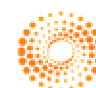

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Now, let me just get my acts together here. Here we go.

So we are the leader in the diversified business process outsourcing space and we're also the leader as Jeff referred to in document outsourcing. And I say that when you peel the -- you know, when you peel the cover a little bit and look at our BPO business, we have multiple segments that we've got leadership position -- commercial, healthcare, tolling, Medicaid, finance and accounting, H.R., a number of places that we've built a strong, string leadership position.

In document outsourcing, we really created that business and have the -- you know, the lead share position as Jeff shared and I feel like we're also driving innovation in the offering component across both of those spaces.

From an industry analysts' standpoint, both are very positively viewed as is our I.T. Outsourcing business which I'll talk about as well.

Now, we're beginning to develop some momentum in our financial performance but not quite at the rate and pace that we see, and we'll talk about that extensively versus my time in the program today.

But in Business Process Outsourcing, we have improved in our revenue dynamics by five points over the last four quarters, so we exited -- we exited 2013 to where we finished in the third quarter. We had a five-point improvement in our overall BPO revenue dynamics.

And from a margin standpoint, we did have 30 -- 30 points of sequential improvement in the third quarter over the -- over the second.

Now, our big focus is driving substantial improvement in our operating margins and a big component of that is our government healthcare business. I'll talk about that at some length today.

But we've made progress both operationally in terms of solidifying the enterprise MMIS platform and financially in our third quarter results in GHS showed an uptick even without kind of normalizing for the second quarter impairment that many of you are familiar with.

And relative to innovation as a key piece of our value prop, I will try to share a couple of examples relative to new offerings where we're using automation to drive productivity and our focus on analytics.

Now, briefly to look back, and when we say financial trends, this is a -- this is, you know, last three-year view, similar to -- similar to what you saw from Jeff. Despite many successes in a number of the underlying businesses, we just are not performing as well as we told you we were going to a year ago.

So we recognized that and I'm going to try to give you a view of the major changes that we were making that -- and why we're confident we will have improved performance in 2014 -- 2015, excuse me.

Let's look at revenue first and then we'll -- we'll look at margins. As you can see on the slide, we, for the first three quarters of this year, are flat on a constant currency basis. We've had 1% growth on an actual currency basis. Our target is mid to high single digit revenue growth.

If you say, where are the gaps that we've experienced in 2014, they largely fall in four areas.

First, we have not signed new business at the -- at the rate and pace that we expected. Some of that was large contract signings that the good news is we won, the bad news is they've taken longer to get over the go line.

But some of it, as Ursula and I shared on the last call, was really we are not covering as much of the market spend as we need to, and you'll see that we are investing in sales, coverage resources and sales support to get to more of the market opportunity.

Secondly, we have had runoffs in a couple of big contracts that has gotten a little bit worse than we expected. And that's student loan which was kind of as anticipated, but with the State of Texas, so that has caused a reduction in our year-to-year revenue dynamics.

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Acquisitions, while as Ursula mentioned, we've had progress, we've had, you know, a number of big acquisitions. They are contributing about one point of revenue growth this year. Our target is to get that where we contribute two points annually. So that's still part of our work plan as we get to 2015.

And in our I.T. Outsourcing business, we've chosen to be a little bit more selective in our pursuits. And our, you know, revenue growth for the first half of the year is flat but we were down marginally in the third quarter, and that's a conscious choice of margin opportunities and revenue growth opportunities that we're making from a portfolio management standpoint.

If you go to the bottom, a couple of comments on the graphics, and look at year-to-year kind of the miss in terms of margin improvement, the dominant factor is the implementation of the enterprise platform in our new government healthcare MMIS clients. I will show you later in the -- in the discussion kind of specifically where we are with that portfolio of clients.

And we had a minor miss relative to how much productivity yield that we get out of our -- get out of our labor actions last year but those would be the two -- you know, two causes on the financials.

But all that said, I am going to take you through our approach to get to mid single digit margins and -- excuse me, I misspoke -- mid single digit revenue growth and operating margins, 10% or higher.

And it starts with the fact that we really do play in a really attractive set of markets. So let's take a look at the market dynamics first and then talk about Xerox's competitive position and how we -- you know, how we improve.

So I'll go from top to bottom and start with the little blue sliver, and it's almost humorous, right? It looks so little on this graphic and that's the document outsourcing market at $19 billion -- $19 billion. So is that really a sliver with very, very -- you know, very, very good growth dynamics. And we compete aggressively in that space.

This representation of the business process outsourcing market is a little bit different than what we've shared historically. And as we've really kind of thought about it this year, we're thinking about both what I would call horizontal or multi-industry offerings and vertical organization industry-specific offerings.

So what you see on the graphic is in the darker -- the darker green what we have labeled as multi-industry BPO is a little bit the bigger piece of the $290 billion in BPO spending this year and sizable but marginally smaller are the industry-specific BPO plays that we see in the marketplace.

On the right side of the graphic, you see each of those segments broken down. So you can see in the multi-industry space the four largest spending components are areas that Xerox has got an excellent position in customer care, human resources, transaction processing and finance and accounting, big markets, solid growth.

On the industry side, you see as well areas, government -- government BPO excluding health, we have a big public sector business, we'll talk about insurance which is directly tied to the ISG StrataCare acquisition, transportation, a big market for us that I'll get into a little bit later, and healthcare, also one of our strong businesses.

So my point here is this is a market that's got both a multi-customer dimension that we can attack from a world-class offering standpoint and an industry dimension where you really have to build up your skill base relative to those industries and that's a big piece of the strategic drive that -- you know, that we're initiating across -- across Xerox.

Now, last year at this conference, we introduced the -- what we call the five planks of the service strategy. And those, I'm pointing here and that's depending on where you're sitting, obviously are on the chart, the five planks are across the top part of this graphic.

And what we've done in the last year is we've really moved this from five planks that we had started, let's build our strategy around, to getting this into a management system with key performance indicators on both the, what are the drivers and what are the outcomes.

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So we've really robustly engineered and man, I'm going to talk to you briefly about them, and then we've added a sixth plank was really around world-class talent because in 100,000-person services franchise, it's a critical differentiator for us in the marketplace.

Now, what I'd like to do is to talk about four of these quickly just off this slide and then I'm going to go more deeply into transforming the way we work and delivering operational excellence because they are kind of the crucial underpinnings of the revenue growth and margin improvement story that we're going to drive going forward.

So first in terms of managing the portfolio of businesses, as Ursula mentioned, we've spent more than $300 million on acquisitions, Invoco to increase our client care capability over in Europe, StrataCare, a big, big important investment for us relative to Workers Comps and medical claims management, Consilience software where some of you read about recently in terms of being a platform that's been leverageable in multiple jurisdictions and the Ebola crisis.

But besides the acquisitions, we've also done, you know, a number of pruning initiatives. We sold the truckload management business within our transportation sector. We sold a money-losing call center operation down in Latin America. We exited or worked our way out of some negative I.T. outsourcing contract. So we are working both sides of the portfolio, not just -- not just the acquisition side.

Relative to growing globally, this has been a big success for us. Our revenue growth rates outside the U.S. all year long had been double-digits. When we grow double-digit-plus outside the U.S., that raises the overall firm services growth rate by a point. So that's a big play for us. We're happy of that -- you know, we're happy about the progress that we've been making there.

From an analytics standpoint, I'll show you one of the examples of -- in one of our industries, one of the key initiatives, but we've really been doing this kind of not macro level but more a micro level inside the individual offerings where can we apply analytics to increase value to customers. In our new model, we'll talk about managing this a little bit more on an integrated basis, in a professional services group that we're establishing.

And then lastly in terms of -- in terms of people, we've created a Xerox Services University which is a Web-based -- you know, Web-based program again for the large workforce that we've managed.

We've made a decision at the firm level, not just at the services level which we've announced to our employees to have a broad salary -- salary increase program next year. Now, I say broad, that doesn't mean both loads of money, this is all built into our financial guidance.

But we had gone a number of years where it was a little bit more unstructured and we decided we needed to have a structured program to address our highest performers and some isolated under market -- under market situations.

We've got a set of restructuring actions that are built inside our portfolio to make the -- make the productivity and margin commitments and -- oh, I'm sorry. And we're doing some nice hiring from the outside. We're finding -- we are finding that we're really an attractive place for experienced services professionals to want to be part of a transformation play.

You know, Xerox has got a great brand, it's got lots and lots and lots of important customer relationships. So again, when I talk about people, we are really trying to leverage both inside Xerox traditional technology business and some isolated select hiring on the outside.

Let me go deeper on transforming the way we work and delivering operational excellence. I'm going to spend the next three slides on kind of a major initiative we have in transforming the way we operate that I would view as kind of falling under this umbrella. So if I can, let me -- let me talk about what we're calling our services -- services evolution.

Now, I think many of you know, ACS which, you know, Xerox acquired and it's getting close to five years now, four and a half years ago now, was really built through many acquisitions. And it was operated or run with 1,000s of independent "strategic business units" and that was a model that had some great advantages but had kind of lost a little bit of its esteem, if you will.

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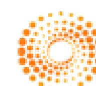

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And the disadvantage was -- the disadvantage was we really were not getting the scale benefits that we thought we had the opportunity to achieve as it's built into a $9 billion -- again, not counting the document outsourcing business, roughly $9 billion revenue stream.

So we -- and the other thing that was kind of a challenge with it is because we were organized so offering-centered, we did not cross-sell well to our client base. We did in some cases but it wasn't the general rule with the model and, in fact, I spent a lot of time out with clients in the first -- you know, first seven months or so.

Infrequently, what I got was, "Boy, we really like you, guys." "We like your service." "You are doing good work." And, "I didn't know you did that."

So part of what we'll talk about in terms of the redesign of the model is more of a client-centered as opposed to offer-centered go-to-market model. So we basically have embarked on a journey to move from 2,500 independent.

They would aggregate up in the big businesses but independent profit centers to more of a vertical and horizontal model, global capabilities which I'll share with you in a moment and six big industry groups that will take all of the Xerox portfolio to their -- to their set of clients.

Now, in the beginning -- in the beginning, this is going to have more of a best practices delivery and margin improvement focus because the vast majority of those resources will sit in the capability organizations that I'll show you briefly in a second.

But over time, we view this as something that will help us both in terms of delivery efficiency and competitiveness, more competitive offerings, cross-selling and then revenue growth back into the -- you know, the nice base of -- base of clients that we already have.

And so basically, what I've kind of shared there is, you know, we'll see more of the uplift on both sides as we move past transition into the optimized and realized phases.

Now, what I didn't make clear is we have largely completed the transition on building out the capability organizations. This is 90% of our workforce. We have done that kind of under the covers during 2014.

We have announced and have kind of halfway there with the industry business groups, but we will be in full launch mode by January. So the transition phase of this evolution is largely behind us and we will be hitting the optimization phase as we turn the corner into -- into 2015.

Now, I've talked about verticals and horizontals, let me give you a little bit of a high-level view of what I'm talking about here.

Again, this is -- these are going to be different data points than we've shared -- we've shared in previous sessions with the investor community.

So this is looking at our total $12 billion around services business franchise. And what you see on the top component of the chart are the six industry business groups and what share of that revenue stream currently, they represent.

So we would -- you know, we would like to grow the whole pie over time but this is the current share, you know, from each of those units. And what you see in the light green and the left -- you know, on the left side of the dynamics are basically the commercial businesses that were largely not organized as independent units but we're, you know, hadn't had revenue that fed through them in whatever -- you know, whatever offerings they've sold.

The three on the right, I'm going to spend a little bit more time on today because they have largely at both the customer set and offering focus in the past, our commercial healthcare business which is obviously a very large business for us, government healthcare and public sector.

And public sector includes transportation because the buyers of our transportation solutions are public sector clients.

So I will peel the onion on this fractionally on some of these units today but this is the way we will go-to-market as a team as we turn the corner into 2015.

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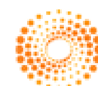

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The big change that we have already driven is on the bottom half of the chart. And we have built a global capability organization. I'll start with Business Process Outsourcing. Tom Blodgett who is here in the second row leads this for us. This is the vast majority of our workforce.

And in those capabilities, in four of those capabilities, four out of the group, we have 10,000 to 47,000 people. So we have moved from a model where we didn't share best practices easily because people were dedicated to a much, much smaller unit where now they participate in a leadership team that can really look and say, "We're doing it the best here and we want to apply those techniques more broadly whether that's a geography and industry or client."

So again, those roles are all filled. The management structure is in place. This is a big, big focus on driving productivity, and again, margin improvement for us.

The Document Outsourcing team was largely already centrally managed so this is less of a big change for that. The biggest place where this is a change is in BPO. And similarly, I.T. Outsourcing delivery, we really had, you know, somewhat of a capability structure underneath the covers.

I mentioned as well that we're building a professional services capability inside this delivery organization, so more of a, you know, consultative management in the areas like Buck Consulting where we have -- where we have a unique consulting offering.

Now, let's spend a second on just the -- this is a team sports and let's spend a second or two seconds on the roles on each side. And I guess what -- I guess what I would start with is on the industry side, again, moving from centering on an offering to really centering on a client in bringing all of Xerox's capability to that client.

And you can see the bullets on the chart, we are doing some hiring here because we have a great deal of talent that is around offerings. And we're leveraging that challenge but we're building up a little bit on the industry skill side.

And when I talk about adding to, you know, our sales resources, we are investing in sales as a part of this model so that we can both be strong at the offering level and invest more in terms of our leadership clients from a coverage -- you know, coverage standpoint.

And the capability groups, the capability groups are really more best practices and delivery-centered. So they will have responsibility for ensuring that the downstream offerings are competitive.

But as we get started, this is where we really expect to see yield and we are already seeing yield in terms of the opportunity to, I think Ursula made the comment earlier, do more with less. So again, when you have this big workforce that was in many, many packets and you structure around it and really drive best practice to sharing, it creates opportunities for us in terms of getting more work done with that -- with that group of talent.

So again, the capabilities are already kind of launched and informed. The industries have been kind of partially done but have been -- are in the process of being finalized and we expect to open the door in 2015 with the -- you know, with this model in place.

And I really do think especially in the Business Process Outsourcing segment, this will be a differentiator for Xerox. You might look and say, "Oh, gees, a two-dimensional services model, I've seen that in the past."

But you wouldn't see a firm that has the breadth of BPO leadership positions that Xerox has then bringing all of that capability in a more integrated way to some leadership clients. So I am very, very excited about this model and the -- you know, and the potential that it brings for us.

So with all that said, let's -- let's move to the math. So if I got my mind right in terms of what chart was going to be next and you probably have been saying to yourself, "Is he ever going to get to the math?" But, you know, when you're running this business, it's an important thing to acknowledge.

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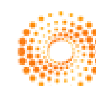

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So as I said earlier, we did not deliver in 2014 what we anticipated relative to margins. And on the bottom lower right of the chart, if you just use our, you know, most recent guidance then and add it to the three quarters that are actuals, you would have a range of outcomes for the full year in 2014 from a segment margin standpoint of eight to nine.

I should start with, we are committed, committed that we can deliver target margins in the 10% to 12% range over time. Our view as we enter 2015, as we enter 2015 is as we're working our way out of the position we're in, we will be in the 9% to 10% range.

And I'll talk you through the drivers, the puts and takes in that model both on a one-year basis and a longer term basis. So we start with building from the bottom of the chart, we are making investments. We're not just trying to cut our way to success. We are making investments for this to be a solid, sustainable long-term franchise for our clients and for our investors.

They largely fall in the areas I've mentioned, sales. We've done some leadership hiring. We're investing in offering rejuvenation in selected places where our offerings have been a little bit, you know, longer than the truth, but we expect those investments, and again, they're built into this financial model.

So this is not then going to be a go-forward excuse. We expect those investments to be 50 to 60 basis points against the $12 billion revenue stream. So think about that as we're going to make that level of investment and still get to the 9% to 10% that we've talked about for next year.

Now, where do we source the improvement that offsets -- that offsets those investments? It starts with GHS or our Government Healthcare business.

As you know, that has been a big deterioration dynamic for us in 2014 versus 2013. We will begin to get that back. We will begin to get that back in 2015 and we expect over time to be, you know, very solid operating margins in that business.

Platform development looks small on this chart because we've got a major play around platform development but it's heavily GHS -- it has been heavily GHS-centered. So in 2015, most of that benefit shows in the GHS column and this is really around software development being on time, getting paid at the milestones, really traditional but solid software development.

Rick Dastin, who is one of our officers, led this in Doc Tech, and his team are off to a great, great start here in GHS.

Over time, we will apply that across some of the other business units as well and it will be a -- you know, a margin enhancement opportunity for us.

The biggest piece of the margin play is what I largely spoke to earlier around the global capabilities unit that we've built and then again, leveraging best practices, common techniques for cost management and productivity across that broad spectrum.

And then lastly, from a -- you know, from a margin improvement standpoint, we're going to continue on the, you know, portfolio management play of only acquiring where we have marginally accretive businesses, divesting where we have units that we don't think have got the potential to meet our long-term targets.

So when you look at all of this together, we're confident that we will, as a long-term ongoing model, be in the 10% to 12% range, and that next year, we will be ramping up and it's still a little bit early to call exactly where we would finish in 2015, but again, on the -- you know, in the 9% to 10% margin range.

Now, let's go to top-line. So I talked about earlier, if you go back to when we started and we said why did we miss revenue growth in 2014, this chart is largely on the same set of metrics. So as opposed to doing the same kind of detailed buildup, Kathy will talk -- you know, talk about our services business as well within the overall contract to the firm financials so you'll get a more granular picture from her.

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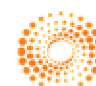

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But the way to think about revenue growth as we go this year to next year and going forward is we will drive another point of improvement or point of growth out of each of these groupings. So acquisitions last year or this year as we said, generating roughly one point of growth and kind of rounding, we would expect to be able to drive that up and get an incremental point of revenue growth in 2015.

Our focus on building out the industry model and in cross-selling, we will get at least a point of growth through accelerated -- revenue growth through accelerated signings that come out of the sales investments that we're making in the new model that we've built.

We expect to continue -- it many not increase but continually get lift in our non-U.S. businesses. We did a lot of work this year to hone in on 12 specific markets. So this is not a general statement of we want to grow outside the U.S. This is down to the level of what offering, what industry set in 12 countries. So that makes it easier for us to do the incremental investment to try to drive that revenue growth.

As you know, this year and really for the past couple, we've got no incremental revenue out of large new contracts. And, you know, New York has -- you know, is still in the final stages of the state approval process. Florida tolling has been awarded but not again through the litigation or protest stages. We would expect both of those to contribute to revenue growth dynamics in 2015.

And then the last thing I'll highlight is we've talked a little bit in the past about contract runoffs, the two, you know, biggest plays have been in -- you know, in Texas and with student loan. Those two areas this year contributed over two points of decline in terms of our revenue growth rate.

We expect next year based on where we are in the market with the big customers that that will be less than a point and a half. So it wouldn't be a full point of improvement next year but it will be a -- you know, close to a point of improvement in our year-to-year revenue growth dynamics.

So now, I'm going to switch and I'm sorry, I hit the button to remind me. I'm going to switch and -- I'm obviously optimistic about what we can do with this business. And I've talked about a model of industry and capability.

I'm going to peel the onion and three of the customer sets in two of the capabilities to hopefully give you a little bit of a feel on, Okay, so why is the new guy relatively optimistic about what our team can do in this customer set.

We'll start with government healthcare. So this is a big, growing, indisputably growing market. We have roughly $1 billion business. This is a nice place to play. In 70% of this business, we have happy customers and good value and good margins for us and our shareholders.

We have -- you can see on the graph, I think you can see, we're in 37 jurisdictions, 36 states and the District of Columbia. Differently than what I've shared with the general business in many of these states, many, we have cross-sold multiple of our service elements.

So not just Medicaid management but health exchange or pharmacy benefits or eligibility services, so the graphics, it's in your hand out, you know, it gives you a little bit of -- a little bit of a feel for that.

And as you can see on the little bottom, we support, you know, half a billion claims a year and $59 billion of dollars that we are managing in this business. So this is in an attractive, attractive space, we've been in it for many, many years.

The but is we made a major play with the enterprise platform to get to a next-generation Medicaid management system and we've been working through startup challenges. I mean it's just the honest fact, and when you -- oh, I'm sorry, I'm supposed to go.

So let -- before -- before I go to the clients, I want to give you just a quick snippet on the Medicaid management business. We've got a short video and then I will show you how we're doing with the individual clients.

So if we could go to the video please?

(Video Presentation)

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Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So health enterprise in the new -- the new Medicaid management platform is really a big, big investment for Xerox. And we've been -- we've been at this and building it up over time.

What I wanted to -- and so we have spent time on the earnings calls this year on, you know, we're not quite making our targets and this has been -- this has been an area where we've made incremental investments because we want to make sure that we -- you know, we've delivered to the key clients that we support and again, long term, this has been a very, very good historic franchise for us and we believe it will be one in the future.

Now, in my view, we're making visible progress here. From a platform development, making the delivery milestones, code quality standpoint, we've made major investments this year. We're starting to see good progress.

Ursula and I are both personally engaged with the -- you know, with many of these clients along with our business leader, David Hamilton, who run -- who brings deep industry skill base and runs this business for us here in the U.S.

Now, on the right side of the chart, we kind of call out the specific clients that are -- that are executing the enterprise platform.

In New Hampshire, I'm just going to speak about for a second, it's been alive for a while and I think the interesting little snippet is they were able to -- they were able to implement the new -- the new rollout of Medicaid or increasing the groupings in four months after the legislature approved.

They would not have -- and it's the fastest time it ever gone in the U.S. and they would not have even tried to think on that kind of an implementation timeframe if they didn't already have this new platform in place.

So, you know, pretty good -- you know, pretty good success story with our -- you know, with our first client. After some burning issues that we -- you know, that we faced in Alaska, our operating performance today is solid.

California has had released one, implemented in the past 30 days. We just check pointed with them, I guess end of last week, and, you know, a very, very, very positive start. Both -- you know, we're working closely with both North Dakota and Montana as they get ready for, you know, implementations in 2015 and beyond.

And in New York, as I briefly mentioned, we have been awarded. We are not yet -- you know, we're not yet contracted. But that said, we are investing in advance, investing talent, getting ready to operate. That's in our guidance. We -- but we are investing to ensure that we have kind of world-class timely delivery for the -- you know, for the State of New York.

Now, I mentioned that David -- David Hamilton who runs government healthcare is here. David will be doing one of the learning sessions at lunch. So if you want to get more depth on our MMIS or government healthcare business, you can -- you can get that from David.

Also here is Connie Harvey. Connie leads our Commercial Healthcare Business which is obviously a related business area, and that's a good snippet for me to shift to our Commercial Healthcare Business.

So as you can see on the -- as you can see on the graphic, this is also another sizable business for us. I would say that this is probably -- at least in our U.S. market, this is probably been our biggest success story at a big business level in 2014.

We have double-digit revenue growth, we have got margin improvement and we're above our target margin range and we have basically a great penetration when you look at the -- you know, when you look at the data elements or the -- and the graphic in terms of, you know, touching that proportion of U.S. citizens.

We are inside so many of the payers and providers that were really fundamental underpinning in the U.S. healthcare system.

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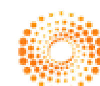

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And as I said, we support 2/3 of insured patients in the U.S. Now, through many payers and providers, so that's based on having a broad -- you know, a broad market presence.

Now, one of the ways we continue to build this business out because when you've got a great business, it doesn't mean you'll stay great forever unless you keep investing and migrating, is by investing in analytics.

And one of our big investments has been in the Midas+ platform and the new release of software that we've labeled as Juvo, so I'd like to go to the video so you can see a little bit about this offering.

(Video Presentation)

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So this platform -- I'm sorry, we want to stay. I didn't go down. Sorry. So this platform really real-time analytics, scalable, runs on a cloud infrastructure, again, moving to next-generation -- next generation solutions to support our -- both -- well, in this case, the provider community, both the payer and provider community and healthcare.

The other thing I just mentioned before we move on is this market is shifting to be more and more consumer-driven. And we recognize that in our go-forward strategy. A big piece of our focus is to make sure that we're enabling all the participants in the ecosystem but we expect to see even more activity at the consumer level.

Now, let's move to another important business for us and that's our transportation business. Now, transportation is part of our -- you know, part of our public sector unit. This is again, $1 billion -- ballpark $1 billion revenue stream for us, really one of our most global businesses.

So as you see -- as you see, I think it's listed on the chart, we're in 23 -- or -- I don't remember -- 35 countries, I'm sorry, 23 languages. So we've got -- you know, we've got a lot of support, you know, in the global market here.

And this is a variety of offerings but it all kind of play back to the same buyers. So tolling, parking, you know, a whole set of initiatives that really affect how people get from place to place.

There will be a clear movement to more -- more urban mobility as the market moves forward and taking the systems from being one thing to manage the buzz versus something completely different to manage the trains or manage the E-ZPass and moving two-way model where this is integrated and where the clients can leverage a single provider across all of the people movement in their location. We think there is great opportunity for us as we continue to -- you know, to make progress here.

And it's also an area where really the analytics capability is huge. So you look at, you know, kind of the proof points relative to reducing people's time on the road to find a parking place, simple things.

Think about E-ZPass, I mean I know it's been around for a long time, but think about our level of human productivity versus X many years ago, getting a quarter out of here, finding it in the car and putting it in the machine.

There will be similar kind of improvement initiatives that we can drive across the broad ecosystem and our transportation business and it's -- Dave Amoriell, who is -- who is here in the front, will -- runs public sector broadly but will be here to talk about transportation during the -- during the lunch lesson session.

Now, I am going to move to two of the capabilities just to kind of round out this view of the model we're going to. But I -- but I would like to make one point briefly first.

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The three industries that we've shared, government healthcare, commercial healthcare, transportation, all were industries that we had largely structured ourselves around in the past. The model that I shared with you moves us to that in the other 50% of our business.

So we're not trying to now kind of apply a model that never worked. We're trying to take best practices inside the firm and move it to the rest of our commercial business and really the way we focused, our cross-selling has been better in these units because of both the offerings and the way that we've gone to market.

So let's look at a couple of capabilities. First, our human resources -- human resource is really a collection of business. It includes H.R. outsourcing, Buck Consulting, a number of -- number of offerings.

As you can see on the graphic, this is a very big market from a customer spend standpoint. We again, have roughly $1 billion in revenue stream out of this business, so it's an important business area for us.

Our growth has been a little bit below the market growth rates based on -- based on a couple of customer dynamics but we are accelerating now. And one of the -- you know, one of the key focuses for us, I've talked about healthcare extensively, but inside the employer community, the private exchange market and our write-up offering out of Buck Consulting is an important growth area for us.

We have a sizable -- sizable pipeline. We have -- we expect -- that market has developed more slowly than people would have predicted a couple of years ago but we do expect that at the end of 2016, there will be pretty sizable movement here.

The employers are letting things settle in a little bit, make sure that the value proposition holds, but this will help employers reduce their costs and it will give employees more valuable options in terms of -- you know, in terms of health insurance. So we expect this to be a good growth area for us.

Sherri Bockhorst is -- I'm looking for Sherri. I'm sorry. Oh, she's in the back. The rests were in the front. She -- she runs this business for us and she will be at the lesson learn session as well, so you can get a feel for write-up, the platform, why we're optimistic about this, it's a big piece of our growth strategy.

Similarly, our learning business, what we're really finding is the economy is -- you know, gotten -- gotten better. Our clients are much more willing to invest in up scaling their workforce, not unlike what -- you know, what our team is trying to do with our own workforce. So that's -- you know, that's a positive -- positive business area for us.

So this is a space, again, when you look out at the marketplace and you see the evolution of clients where they have shared services centers in senior execs that are managing multiple elements of the internal side of a firm, this is another key area for us that we think that we can -- you know, that we can drive for growth.

Lastly, I'd like to just briefly cover our Document Outsourcing Business. Jeff has -- Jeff has talked about this as well. We've kind of talked about it because it's part of our services segment results, so when I'm giving you a full view of our services business, I think it's important.

But most of our competitors who are in the MPS space or document outsourcing space, they don't have a big services business so they treat it inside their -- you know, their overall print financials.

But this is -- this is an important business for the firm and again, we've talked about it, it looks small on my charts but $19 billion. We represented this and brought it -- you know, brought the next generation kind of approach to market last year at the conference.

We had a set of -- set of big announcements just end of last week relative to new offerings here. And the digital alternatives offering, I'm just going to look at my notes because when I was reading one of the two write-ups last night, we had very positive press on this, but I love the starting -- the starting piece on this from IDC.

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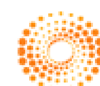

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The digital alternatives tool can significantly boost worker productivity and workflows that involve forms, processing or signatures. Now, that's what we're here as a team to do, help, make our customers be more productive.

We try to do that across our whole services franchise. Gartner, as Jeff mentioned, just ranked us not the -- not the individual new offerings but the business broadly, not just on the top of the, you know, management quadrant or in the best position to magic quadrant but the best on both attributes, so best on both vision and the ability to execute. Again, that's really what -- you know, what you want from a partner.

I have been somewhat surprised, there's a new entry to the firm. I was like, "Wow, we are really aggressive in helping people not print as much." I mean I just -- honestly, I didn't know I would be -- but I mean really, really aggressive offerings to manage digital content and reduce the amount of paper. And we're seeing more and more potential linkage between our Business Process Outsourcing and Document Outsourcing when you get around workflows.

So again, a very, very good, good franchise for the firm, a great leadership position. We're investing in this to continue to drive growth and I'd like to -- before I close, to show one last brief video.

(Video Presentation)

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So what I've tried to share is that our focus is really on all three key constituencies. If you start with a client we have major, major focus in delivering increasing value to the client both around our industry depth and around building out our global capabilities.

As we just said on the video, Xerox helps us be the best. That's our target with our client side. From an employee standpoint, we're investing in skill building and we're really focused on making Xerox Services and Xerox overall just a great place to work.

And lastly, for you in the investor community, we have a set of initiatives that we're confident can really drive improvement in our revenue growth and margin dynamics and get us on the long-term model that we've been striving for.

So with that, I want to thank you for your time and attention. After a brief commercial message from our sponsor, Kathy Mikells, our chief financial officer will join us.

(VIDEO PRESENTATION)

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Ursula, Jeff, and Bob have given you a good sense today of our overall go-forward strategy, the opportunities that we see in key markets, how we're differentiating ourselves from competitors through innovations and our offerings, and how our business is evolving on a go-forward basis. I'm going to build on that and dive a little bit deeper into how we're managing each of the different pieces of our business and Xerox as a whole to build sustainable long-term value for our shareholders.

As part of that, I'm going to walk through the overall business dynamics that we see in both our Document Technology and Services segments as well as what we expect there over the long-term, what we're seeing this year and our forecast for 2015. I'm going to wrap things up with a detailed discussion of our 2015 guidance, covering earnings, cash flow, capital structure as well as our approach to capital allocation.

Hopefully you're going to leave here today with a good understanding of our strategy and where we're focused as well as what to expect next year and, directionally, what we anticipate out of our business over the long run.

So with that, let's go ahead and dive in.

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This is the same slide that Ursula covered earlier, but I thought it'd be worthwhile to dive into a little bit more detail here.

We participate and, in many cases, lead in some really attractive markets. Most of our BPO markets where we participate are growing at over 5%. And in the document technology space, document outsourcing, as well as high-end color are places that are also growing over 5%.

Based on the growth in our different segments and where we're targeting our acquisitions, we expect that by 2017 two-thirds of our company will be shifted toward Services with that shift over time progressively improving our overall revenue growth.

As much as that shift towards growth is a big part of our story so is the opportunity and improving our margins. It's no secret that our services margins have been a challenge for us the past couple of years, but as Bob went into a great amount of detail we've got specific plans there to both continue to invest in the business for the long-term and drive cost actions to drive margin expansion over a number of years.

We continue to lead in document technology, and although we face revenue headwinds there we're a market share leader, we have a disciplined approach to investing selectively in areas where we see long-term opportunity, and we've got a great track record of managing this business for profitability.

Overall, the company has very strong cash flows with our operating cash flow at about $2 billion annually. We're using that cash flow to drive sustainable long-term shareholder value with a consistent and balanced approach to capital allocation.

Over the past four years, we've delivered over 50% of our free cash flow back to our shareholders in the form of dividends and share repurchases. If you combine all of these factors coupled with continuously improving our execution we should enable core earnings expansion and drive EPS growth between 5% and 10%.

I'm going to talk about the overall dynamics in both of our segments -- Document Technology and Services. Starting first with Doc Tech.

Doc Tech now accounts for about 40% of our revenues with 62% of that coming from North America, 26% from Europe, and 12% from developing markets. We continue to plan for mid-single-digit declines here and expect pretty stable revenue trends overall.

Our strength is in the higher value products with high-end production accounting for 24% of the segment and mid-range office representing 56%. Entry at 20% of our revenues is an area where we participate a bit more selectively in the market.

We're expecting to see our best growth at the high-end where the market is growing by 3% driven by Color. High-End Black & White continues to decline at double-digits, but it's becoming a smaller and smaller part of our business and represents less than 8% of our total Doc Tech segment today.

High-End Color is an area where we're continuing to invest with the acquisition of Impika last year being a great case in point. So we feel really good about our position at the high-end and our growth prospects there longer-term.

Our mid to entry performance really reflects the office market, which is expected to decline by about 4% before you take the shift to document outsourcing into consideration. Entry is tied more to developing markets, which has potential for higher growth long-term, but really requires economies in these countries to improve.

Our performance in recent years and our expectations for 2015 have really caused us to be more bullish about our margins in the Doc Tech segment. As a result, we're adjusting our long-term margin range from 9% to 11% up to 10% to 12%. So to wrap up on Doc Tech, it's a business with strong margin and cash flow, which is really driven by the relatively stable post-sale revenue streams.

Shifting over to Services, Services now accounts for 57% of our total revenues with about 60% of that coming from BPO, 28% coming from Document Outsourcing, and 12% coming from ITO. Longer-term we continue to expect mid-single-digit revenue growth and segment margins between 10% to 12%.

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I'm going to get in to our near-term expectations in a lot more detail later in the presentation, but I want to take a minute just to talk about the confidence that we have and our long-term expectations for this business.

As Bob talked about in great detail, we operate in markets with really attractive growth rates with BPO growing at 6%, Document Outsourcing growing at 7%, and ITO growing at 4%. Our growth is really going to be driven by BPO and Document Outsourcing with limited growth in ITO where we participate more selectively in the market.

We're organizing our go-to-market functions by industry in order to drive a greater focus on our customers and greater innovation in our offerings. We continue to accelerate our international growth, which is growing double-digits where we have both organic as well as inorganic opportunity, and we're investing in more feet on the street and training for those feet on the street in order to drive better signings and ultimately better revenue growth.

Within Services we really manage a portfolio of businesses. BPO is obviously the biggest portion. And within BPO, 60% of our business has margins over 10%. Document Outsourcing also has margins over 10% and our ITO margins are on a positive trend. So overall, we have a great foundation of profitable businesses and we're very confident that over the long run we can get our margins up in Services.

I'm going to dive in to details on each one of the segments starting with Document Technology, first reviewing the performance trends there.

Our revenue declines have been quite stable and largely, in line with the market, with our results really driven by the Office market and the shift overall to Document Outsourcing and Managed Print Services.

Additionally, this year we have seen a little bit more top line headwind as a result of past year finance receivable sales, which accelerated revenue and income into the years that we completed those sales. We're also experiencing a bit of weakening in our Developing Market Operation, but year-over-year those compares are getting easier, and long-term we really see that area as an area of opportunity.

Our install growth in total has been lower this year, but has been driven in part by the launch timing of our new products. We launched 23 new products recently towards the end of the third quarter and the beginning of the fourth quarter so that defers some of our sales until later in the year.

Because this is a unit-based rather than a revenue-based metric it tends to get dominated by low-end high volume entry activity. Entry installs have been impacted by both the timing of new product launches as well as lower sales in developing markets. Twelve of the 23 new products launched are in the A4 category, so they're targeted towards this end of the market.

Outside of entry, we continue to see positive growth and other color areas with high-end color of 5% and mid-range color up 1%. You can see our profitability continues to be quite strong with our year-to-date Document Technology margin of 13.6%. We're confident that between our ongoing good cause discipline as well as continued positive currency benefits we'll see strong margins again in 2015.

The Doc Tech overall revenue model is pretty straightforward. About 70% of our revenues here are from annuity or post-sale, the 30% coming from equipment. Equipment tends to be more variable and cyclical revenue stream, and it's also the area where we see the greatest impact from price erosion typically averaging 5% to 10% annually.

Overall, we'd expect our equipment revenue to be flat to down 9%, which drives an overall impact on our Doc Tech segment, a flat to down 3%.

Annuity is relatively stable with the majority of our revenue tied to contracts. The underlying trends here reflect stable to low-digit page declines. Our annuity revenue is declining 1% to 3%, which equates to about a one to two-point decline for our overall Doc Tech segment. Our annuity declines this year have been a little bit higher due to the impact from prior year finance receivable sales that I talked about earlier, which just caused a little bit tougher year-over-year compare. So overall, the dynamics of the Doc Tech segment revenue before we talk about the shift towards Managed Print would be low to mid-single-digit declines.

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The shift towards Document Outsourcing and Managed Print Services causes an additional one to two-point impact as a result of us reporting that particular part of our operation in our Services segment. So overall we'd expect Doc Technology, our segment, to decline mid-single-digits. These declines have been manageable and fairly stable, and overall we see strong profitability and cash flow coming from this part of our business.

So I'm going to wrap up the discussion of Doc Technology by covering margins.

Our margins have been particularly strong this year and are expected to be over 13% for the full year, which means that we're going to be up well over 200 basis points year-over-year. The margin expansion has enabled absolute profit growth in our Document Technology segment with that profit helping to offset the investments that we're making in Services and the margin softness that we've seen there.

In addition to our ongoing productivity and cost initiatives, this year we have benefited by approximately 200 basis points from currency and pension tailwinds. As we looked to next year we'd expect our margins will continue to be strong, but they will come in lower than this year.

There are three factors that work here, which are depicted on this slide. First, in terms of ongoing productivity initiatives, including restructuring, we expect that this will continue to be strong and more than offset the impact of price declines as well as the loss of operating leverage as a result of the top line pressure we see. We're very disciplined in managing this business to protect profitability and our ongoing restructuring is really an important aspect in accomplishing that overall.

We don't report restructuring charges in this segment, but they are reflected in our overall results. And importantly, we do not back those charges out of our adjusted earnings and earnings per share.

I think Jeff did a really good job at covering our overall initiatives in this area, and it's really important to recognize that between both the Doc Tech segment as well as Document Outsourcing, we've got about a $9 billion base of cost to work with here so we have plenty of opportunity on a go-forward basis. We're continuing to focus on optimizing our supply chain, applying new technologies to places like service delivery and further leveraging shared services in order to get our cost down and our back office operations.

The second factor that I want to talk a little bit about is currency. The main currency transaction impact that we see comes from the significant equipment and post-sales supply that we source from Fuji Xerox with those transactions denominated in yen. We have both a currency risk sharing agreement with Fuji Xerox, and we hedge the remaining exposures that we have, so both of those things really dampen the impact of changes in yen. That said the continued weakness in the yen has provided roughly about 100 basis point uplift to our Doc Tech margins this year.

As we stand here today and look out to 2015 based on where current exchange rates are, we'd expect to see an additional year-over-year benefit from the yen depreciating next year. However, that benefit is going to be offset a little bit by the euro depreciating relative to the dollar, which impacts our overall European operation due to translation currency impacts. So net-net, as we look to 2015, currency is going to continue to be a really strong overall aspect of holding strong margins, but I'd expect to see the year-over-year benefit to be relatively modest, which is what we're showing on the slide.

The third significant factor going on in Doc Tech margins is pension expense, which I talked about quite a bit on our third quarter conference call. We're anticipating a negative impact year-over-year of about $105 million as a result of increases in pension settlement losses, and most of that flows into our Document Technology segment.

I'm going to cover pension expense in much greater detail on a later slide, but I just want to note here that these pension settlement losses are really a non-operational item and they result from nuances in our US pension plan, which create a lot of volatility year-over-year in this particular expense item. So overall, we've got very high confidence in maintaining great margins in Doc Tech segment next year and we're expecting them to come in at between 11% and 13%, so still a little bit higher than what we're targeting long-term even with the increase that we've made in our long-term expectations.

I'm going to flip now to talk more about our Services segment. I'm first going to review our performance trends.

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Our new business signings are down 6% on a 12-month trailing basis, but this is in part a reflection of decision and contracting delays. We've got two new large deals that have been awarded, but they haven't yet been contracted. That's the New York Medicaid deal and a Florida tolling deal.

That said, as Bob talked about, this is really an area of focus and a place that we know we need to improve, and we're investing in more sales people and training of those people to deliver improvement.

We expect that we'll see signings begin to improve in the fourth quarter and in early 2015. Our pipeline, which reflects future signings opportunities continues to be strong and it was up 7% at the end of the third quarter.

Another really important metric for us is renewal rate and we target renewals to be over 85%. You can see on the chart that our renewal rate so far this year year-to-date has been lower than that, which has been driven by the loss of the Texas Medicaid contract. That contract was worth over $160 million annually in revenue. If we excluded that loss, our renewals year-to-date would be at a rate of 86%, so overall we feel pretty good about our retention rates.

To wrap up this slide, services margins has been on a negative trend and it's clearly fallen short of our expectations. The largest contributor to this year's decline has been our Government Healthcare business with profits that are down about $100 million year-over-year. Additionally, our cost in productivity initiatives, while making progress, haven't been enough to fully offset the headwinds that we're seeing elsewhere as well as the long-term investments that we're making in the business.

As you heard from Bob, improving our margins is really a top priority for us, and I'll walk through our 2015 margin expectations in a bit more detail in a minute.

First I at least want to cover the overall recurring revenue model that we have in Services. This is one really strong aspect of the business. We start each year with about 90% of our Services business already under contract with the remaining 10% coming from consulting and project work. Within the model, we expect to see a need to replace three to four percentage points of our overall revenue base due to lost renewals. That's based on our target renewal rate of 85% to 90% and an overall contract life of about four years.

With recent new business signings coming in at a contract length a little bit shorter than that, we're probably moving towards the high-end of this range.

Price declines either on renewal are built into existing contracts cost us about two to three points of revenue a year, and we really haven't seen any change in the trends there. These negative pressures are typically more than offset by the ramp in new business from signings in prior years, which typically generate eight to 10 points of revenue growth for us.

Current year signings typically contribute another three to four points and acquisitions typically add another one to three points, so overall we would expect to see assuming flat volumes, a growth rate of mid to high single-digits.

In 2015, our growth rates will recover, but they're going to fall short of our long-term target driven by higher renewal losses and lower new business ramp. On renewal, the loss of the Texas Medicaid contract will cost us about 80 basis points of headwind of growth next year given the midyear timing of the loss this year.

With our new business signings down, we have less benefit from ramp. Clearly, if we get the New York Medicaid contract signed as well as the Florida tolling deal. We'll start to see some growth from those two things next year. But overall, we're running about two to three points below the target model. Signings improvement is going to be really key to further improving our growth rate in Services in 2016.

On acquisitions, as Bob mentioned, in 2014, we're averaging about 100 basis points of inorganic growth really driven by the lower acquisition expenditures that we had last year.

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We're on a much better track this year having spent about $300 million through the third quarter with a couple of small deals expected to close before the end of the year, so if we continue on this trend we'd expect to be very comfortably within this target range for acquisition growth.

Finally, our overall volumes continue to be a slight negative as the student loan portfolio continues to run off. So at this point, as we look to 2015 we're expecting about 3% revenue growth from Services.

So to complete the picture, let's talk about margins.

Margin expansion is a critical objective for us. Although we made progress improving our cost structure in 2014, it wasn't enough to offset the headwinds that we faced including pressure in our Government Healthcare business.

Our normal business dynamics around pricing and business as usual productivity and cost initiatives are largely in line with historical norms. However, our 2014 results are running about 100 basis points or so below the low end of our 10% to 12% target range with really further improvement on cost structure reduction and progress in our Government Healthcare business required to improve from here.

Bob walked through a great amount of detail in our strategy here, including our expected improvements in 2015 and what we see as that opportunity beyond 2015.

If we look at the year-over-year drivers we start by recognizing that we're making focused investments in the business. Those investments include investing in our industry go-to-market model, adding sales resources, as well as enhancing our offerings and building our platform development capabilities.

The biggest single factor that will drive improved margins is the further ramping of our productivity and cost savings initiatives, including things like simplifying our management structure and improving global delivery by using more technology and implementing other best practices across our operations platforms.

We're expecting this to yield a benefit of 50 to 75 basis points year-over-year in 2015. We're expecting roughly 25 to 50 basis points of improvement in margin to come from improvements in our Government Healthcare business as we continue to make headway implementing our Medicaid platforms in various states. And finally, we expect to get modest help from portfolio management, which includes improving underperforming contracts as well as improving our overall business mix as we accelerate growth in high margin businesses.

So overall, we expect that our Services margins next year will be between 9% to 10% so about a 50 basis point or so improvement year-over-year.

I'm now going to switch to talk about Xerox overall starting with the review of guidance.

If we look at 2014, our revenue is expected to decline low single-digits. Through the first three-quarters of this year our revenue is down 2%. That's driven by Services segment being up 1%, which has been more than offset by a 6% decline in Doc Tech.

We continue to expect full-year adjusted earnings per share of $1.11 to $1.13. Our cash from operations is strong and continues to be on track at $1.8 billion to $2.0 billion expected. And we expect to use that cash to deliver about $1 billion worth of share repurchases this year, acquisitions between $300 million to $400 million, and dividends of about $300 million.

As we look towards 2015, we expect that our revenues are going to be flat in constant currency driven by growth in Services of 2% to 4% offset by a decline in Doc Tech segment of 4% to 5%. Additionally, we're expecting up to about a point of negative translation currency, so we're expecting our actual reported revenue could be flat to down about a point.

We expect adjusted earnings per share between $1.11 and $1.17. Year-over-year improvements in Services margin and the impact of lower share count is partially offset by declines in Doc Tech segment margin, which is really driven by the higher pension settlement losses.

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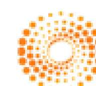

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We expect our 2015 cash flow to continue to be quite strong operating cash flow between $1.9 billion and $2.1 billion. We'll spend on CapEx about $500 million which is pretty consistent with this year, so overall our free cash flow will be between $1.4 billion and $1.6 billion. I'm going to cover this guidance in a little bit more detail starting with earnings per share.

Here I'm looking at the change in earnings per share year-over-year. With our revenue expected to be flat to down 1%, we'd expect to see a neutral to negative $0.01 impact on earnings per share year-over-year.

The margin improvement that I'm showing on the slide here excludes pension settlements which I put in a separate column. Margin improvement will be driven by Services margin expansion with overall margin improvement yielding between $0.04 to $0.06 a share. Our lower share count will improve EPS by another $0.04 to $0.05 cents partially offsetting those positives is the higher pension settlement expense.

At $105 million increase year-over-year, this equates to about $0.06 a share. And below the operating profit line we expect a slight headwind really relating to some positive one-off items from this year that won't repeat. We expect our tax rate to be roughly flat in between 25% to 27%. So in summary, we expect EPS overall to be flattish to up 4% year-over-year. If we set aside the impact of the higher pension settlement expense our EPS would grow from 4% to 10% year-over-year.

So with that, I'm going to talk a little bit about the forces that are at work in our legacy-defined benefit pension plans.

As you can see on this slide we've had a lot of variability in overall pension expense over the last couple of years. Importantly, all of our major defined benefit pension plans have been frozen. As the expense chart shows here in purple, we've shifted our employees into defined contribution plans and the overall expense there has been very stable over the last couple of years.

We've begun to see the benefit of the freezes in our defined benefit pension plans over the past couple of years with a defined benefit cost element of our overall pension expense shrinking considerably. That cost is depicted in blue on this slide. However, we have seen a significant amount of variability and another aspect of our pension cost, which is pension settlement losses, which is depicted in yellow on the slide.

Our US pension plan has a lump sum option and that's what drives the recognition of settlement losses.

As I talked in a fair amount of detail on our last earnings call, the discount rate used for the calculation of our lump sum is set in August, and then applied to the following year.

In 2013 we saw high settlement losses because the discount rate was set to go up in 2014. As a result, people achieved a higher payout by cashing out before the discount rate changed. This year we benefited from a lower level of activity with that higher discount rate in place. Next year we're going to have the opposite impact again with the discount rate set to go down making it more attractive for folks to wait and cash out next year.

This change in activity is basically a timing issue and it's expected to drive $105 million of increased pension settlement losses next year, which equates to $0.06 a share which I showed on the prior slide.

Swings in settlement losses don't have a direct bearing on our pension funding requirements. In terms of pension funding, we're modestly increasing our funding plans for this year moving it up from $250 million to $290 million, and our plan is to modestly increase that amount again in 2015 as we seek to slowly address our underfunded pension liability and importantly to avoid building large pension funding towers in future years. The pension funding legislation that was passed this past summer gives us a bit more breathing room to address our pension funding gap at a measured pace over time.

The strength of our business really comes through in our cash flow performance and we've made good strides in smoothing out our seasonality and reducing year-to-year volatility.

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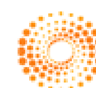

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Our operating cash flow dynamics next year are pretty straightforward. We expect that our reported earnings will decrease marginally really driven by the higher pension settlement expense. However, if you look at our cash earnings which excludes depreciation and amortization on that pension settlement expense as well as the number of other non-cash items, we'd expect to see modest improvement year-over-year.

Finance receivables are also expected to be a positive contributor as the impact of the prior year's receivable sales are continuing to diminish. I'm going to talk about this in a bit more detail on the next slide.

Those positive year-over-year drivers will be partially offset by a little bit higher pension funding as we gradually address the underfunded liability. As a result, our operating cash flow should continue to be quite strong at about $1.9 billion to $2.1 billion next year or up about $100 million year-over-year.

I introduced this chart last year to give you a little bit more visibility to the impact of the opportunistic finance receivable sales that we executed in 2012 and 2013. They were attractive transactions and they resulted in gains and supported our capital allocation goals, enabling us to repurchase more shares in those years. However, the sales did pull forward incoming cash flow from future years into 2012 and 2013.

As I mentioned at last year's conference, the market for these types of transactions have changed and we have no plans for future sales. In 2014, we had a negative impact of about $400 million simply from the loss of normal collections from the portfolio that we had sold off previously. That negative impact is dissipating, and next year we'd expect it to be about $300 million. So our underlying cash flow which excludes the impact of those finance receivable sales is expected to be strong and stable next year at between $2.2 billion and $2.4 billion.

Moving to capital structure, we expect to close this year with about $7.8 billion of debt, which is in line with our guidance and pretty flat year-over-year. We maintain our core debt level to maintain credit metrics that are consistent with our investment grade credit rating.

The largest portion of our debt really supports our finance assets. We maintain a seven-to-one debt-to-equity ratio on those assets. So as finance assets shrink either just due to the natural run-off as our Technology revenue declines or when we sell these assets, we trigger a need to reduce debt. As we look towards 2015, we don't anticipate any debt reductions going to be required to maintain adequate credit metrics.

So with that, let's talk a little bit about capital allocation. I'm going to start with a discussion of dividends.

Our current quarterly dividend at $0.0625 a share equates to roughly $300 million annually, which is a little over 20% of our free cash flow. We view dividends as a really important part of our capital allocation strategy. And as Ursula mentioned earlier, we increased our dividend this year by almost 9%.

We're targeting gradual increases going forward over time supported by both our strong annuity driven cash flow as well as our share repurchase program. Similar to last year we'd expect that our board will make a decision on 2015 dividends in advance of our January earnings call. So to round out our overall approach to capital allocation for 2015 we expect dividends will continue to be about a $300 million use of cash.

Share repurchases continue to be a priority and we expect to spend at least $500 million in 2015 on share repurchases. In support of that, our board recently increased our share repurchase authorization by $1.5 billion, so between share repurchases and dividends, we'd expect to return over $800 million to shareholders next year, which is over 50% of our free cash flow.

Acquisitions naturally ebb and flow. We're very disciplined on pricing and ensuring that we're acquiring things that are a good fit with our business with strong management teams. We've made more progress in 2015 here with over $300 million accomplished through the third quarter and a few smaller transactions that we'd expect to close before the end of the year. Our guidance for 2015 is similar to 2014 and we're targeting between $300 million and $500 million to be spent on token acquisitions mainly targeted to our Services segment.

As I mentioned earlier, we expect our debt levels to be roughly flat to 2014. And similar to last year, we've set aside an opportunistic bucket of between $100 million and $300 million which we'll deploy depending on how things shake out in 2015. So overall, we continue to have a balanced and pretty consistent approach overall for capital allocation.

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With that, I'm just going to take a minute to wrap things up. We've got four primary financial objectives.

First, investing in areas of competitive strength where we have the greatest market opportunity, leveraging and building upon our intellectual property.

We're managing our overall businesses to drive profitable growth. We have big cost savings initiatives underway, both to deliver margin expansion in Services and to hold our strong margins in our Document Technology segment.

We expect to provide an above market return to our shareholders driven by improving execution overall in the business, driving strong cash flow, and maintaining a consistent and balanced approach to capital allocation including a substantial amount of capital that we return to our shareholders.

So with that, I'm going to have Ursula, and Jeff, and Bob join me back up on the stage, and we're going to move into the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Shannon Cross - *Cross Research - Analyst*

Thanks. Shannon Cross, Cross Research.

Kathy, I know it's a little early to talk about 2016, but if -- I'm right here.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Thank you. Okay. You can stand up, and I'm listening and not seeing where you are.

Shannon Cross - *Cross Research - Analyst*

I just wanted to think a little bit about how your model is progressing as the sort of $1.10-$1.15 EPS has been there for a while. But as we sort of think about going forward into 2016, if you get the margin improvement sort of similar to this year, if you get the share repurchase similar to this year, and then theoretically you wouldn't have the headwinds, it looks like you're sort of ending '15 with maybe $1.13, $1.14, $1.15 give or take of tailwinds because you don't appear to be putting much currency into 2015 from a benefit standpoint. So is that sort of a fair way of thinking about where things are at? And then also if you can just let us know what you used for the yen for your guidance for 2015 because it's kind of shot up in the last few weeks.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Okay. So that was a lot. If you look beyond 2015, you know, what we're seeing in 2015 is revenue call it flat, actuals may be down up to a point reflecting what we expect to see in translation currency, right, and improvement overall in margins driven by Services putting pension expense to the side, right?

If you look forward to 2016 and I'd say expecting maybe pension settlements to be at a more normal range of $100 million versus call it $165 million that we expect to see, I think we can get sort of $0.03 coming from there, a little bit better growth coming in top line, moving our overall Services segment margins into at least the lower end of that 10% to 12% range. I'd expect to see us pretty comfortable in growing EPS in the 5% to 10% range. Hopefully, we'll be at the higher end of that range, but we'll talk about that in a year's period of time as we see how 2015 will shape up.

With regard to yen overall, you're right. Rates have been changing pretty significantly in currency both in yen as well as in euro as we look forward to next year. What I think you have to take into consideration is what I talked about with respect to the fact that we have a currency risk sharing

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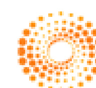

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agreement with Fuji Xerox. And our remaining exposures get hedged and they get hedged beginning kind of a year to 15 months out so that by the time we get to the current quarter, we're fully hedged.

We set for planning purposes, yen at about 102, 103, but before this material giving of information, we clearly looked at where current rates are as I put together those charts. So with current rates more in the 114, 115 land, clearly we're expecting we're going to get a year-over-year benefit. But again, I caution you that that benefit tends to come in over time for us given the things that we do to dampen yen movements. And we do expect to see a little bit of headwind coming out of currency translation.

Shannon Cross - *Cross Research - Analyst*

Great. And if I could just ask a quick question for Bob, I'm just curious when you look at the startup cost that come through for tolling and New York State Medicaid. And for those of us who lived through the California Medi-Cal costs and overruns on that, how much are you factoring and how are you thinking about getting those up and running? And is there something different this time about New York State Medicaid in terms of where you guys are in the MMIS rollout and all of that versus where you were?

Maybe, Ursula, you want to jump in, I don't know, from a Medi-Cal standpoint that will help to mitigate some of the startup costs.

Ursula Burns - *Xerox - Chairman & CEO*

Tolling is a little bit less complicated. When you talk to -- in the learning session talked today about it -- a little bit less to overcome in the tolling deal.

In New York State, I think Bob -- I think I know he referred to this work that we're doing pre -- after award but pre-sign. It's actually a fair amount of work that we're doing, investing people expertise, et cetera, working with the state to make sure that when we sign and we actually start the project that we are ahead of the game and have a better opportunity to actually perform it well from the beginning.

It's going to be a challenging contract. I don't want anyone to believe that we're going to be able to walk through this unscathed, but all of the scathing is included in our guidance. We have literally tried to take all the learnings from small states and big states starting early and incorporating in our guidance any downside pressure that we can see so that we can start New York well.

Sorry, Bob. I don't even know that you have an answer.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

You got it, boss.

Keith Bachman - *BMO Capital Markets - Analyst*

Hi, it's Keith Bachman from BMO. I wanted to ask a question on revenues. And to be fair, over the last few years Xerox has been really good about hitting EPS estimates frankly less so on revenues, including this year even if you X out currency.

Bob, when I look at the underlying assumptions surrounding the Services side, if I look at the BPO side you have financing accounting 7%, customer care 4% growth. I think you get some pretty healthy debate industry consultants. It sets the current run rate of the BPO side of the business, so I want to step back and just make sure if you can talk about the process and any potential conservativism, if you will, when you project out 2% to 4% for FY '15 on the Services side, how comfortable you are relative to some of these assumptions you articulated.

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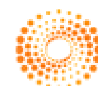

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Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Yes, Keith, I would separate two things. So the market growth rate, market attractiveness data that we shared, we don't construct that ourselves that was whatever source data. I'm sorry I don't remember, but we use the same source. We don't build our revenue forecast that way. So we don't say, oh, the market for customer care is growing by five and so it will grow by five. We build our revenue forecast bottoms up unit by unit.

So when I try to share the dynamic of we're flat to plus one this year whether you're on constant or actual currency, and then what are the drivers to elevate that growth rate we went through. We thought we could get another point out of the acquisitions. We think we've got, you know, not quite a point less, but at least half a point less off of contract run-off. We need to increase signings, but we'd get another point out of our signings yield.

None of that was off macro math of -- HR is growing at this rate or whatever. It was really kind of microengineering including getting some yield in 2015 out of New York and Florida, but they were all of those things together if we gave the 2% to 4% range. Kathy shared the midpoint of the range. It was obviously 3%, but we've got a set of engineering that barring us missing them all should get us in the range that we've shared.

Keith Bachman - *BMO Capital Markets - Analyst*

All right, fair enough. And I'll just sneak in one for Kathy if I could.

Kathy, in terms of the share repo it looks like -- and oh, '15 down take a little bit from a $1 billion to $500 million, what's the thought process on taking the share repurchases down a little bit? And I'll cede the floor. Thank you.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Sure. So overall in 2014, one of the things that we benefited on in terms of just the level of share repurchases that we did is we entered the year with a quite high balance, right? So for our overall capital allocation in 2014 one of the things that we did was use some of that, I'll call it surplus cash balance and target it towards share repurchases.

We're also coming in as I talked about with acquisitions a little bit lower than that $500 million, so somewhere between $380 million to $400 million, right? So later in the year, as a result of me saying where acquisitions were coming in we basically repurchase that cash flow towards share repurchases as well, right?

So overall, we're not going to have that same high cash balance as we enter 2015. And if you look at our overall capital allocation plan, I think it's quite beneficial and targeted towards returning capital to shareholders. I think it's very balanced. Clearly, we're seeking to take a consistent approach.

And then I'd also mention that I left that quote, "opportunistic bucket," unquote, of between $100 million and $300 million. So the $100 million really comes from just the math from the low end of our free cash flow guidance, right? It's up to $300 million if we're able to get to that higher end of our free cash flow guidance, but that we'll see how the year progresses and we'll figure out what to do with that money if we end up in the great place of having sort of excess capital to deploy.

But I think we've got a very balanced and consistent approach. I continue to think our shares are a good investment for our shareholders repurchasing shares, and I think we've got a real good track record there.

Ben Reitzes - *Barclays Capital - Analyst*

Yes, thanks. Ben Reitzes from Barclays. How are you doing?

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I wanted to talk about Bob's slide 8, which is the bridge of Services margins to 2015 and, in particular, the GHS recovery plan, I just wanted to hear a little more detail about that and how confident you are in those 25 to 50 basis points in light of maybe Obamacare not getting as many signups as thought or does that have any impact, and just some of the ins and outs there.

And then also on the other big chunk, the 50 to 75 basis points on the optimization, I just wanted to get your confidence there in a few more examples or to repeat those examples that you said in your [press] just to get a better understanding there. So those are the two biggest buckets of the improvements. And I just wanted more detail.

Ursula Burns - *Xerox - Chairman & CEO*

So you should take all of the detail. I just wanted to talk a little bit about the impact of Obamacare on any of this, on any of the GHS numbers, say nothing, zero. It doesn't matter which way it goes. These are in place contracts already, but then you can actually answer the rest of it.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So, Ben, the thing I would share would be we have had erosion as we've been pretty visible about this year in terms of our GHS profitability as we've been investing in the enterprise platform and in a handful of states where we had things that we just had to get over in 2014.

The 25 to 50 basis points would recover back, I mean, if you just choose kind of a midpoints all around to 40 for the midpoint for math simplicity would basically get back half of the deterioration that we've experienced this year.

A reasonable portion of that is not having another big impairment charge, which we had associated with Nevada and which is kind of completely behind us. So in the rest it really is around and we feel like we've got a good handle on this executing the handful of states that I showed on the map that you looked at. So each one of these things every day, you're working with the state. None of them are perfectly predictable for the next 13.5 months, but we think that we've got a good line of sight and a good set of plans to get back at least half of that margin deterioration that we had in 2014, and that puts the business overall at kind of plus or minus C-levelish.

I don't want to be able a little bit above risk factor. It could be a fraction below, but in adding money, losing operation but certainly not at our 10% profit margin kind of downstream targets.

And the capabilities -- that was the other big lever that we've got focused on from a basis point improvement, and we have roughly 90,000 of our 100,000 person staff basically in those sets of global capability units that requires a productivity or cost takeout kind of metrics that are basically in line with what we've been able to deliver in the past, so it's not a completely do something that you've never done before.

That said, we think that we got some different lenses now by looking at the 47,000 people in the customer care centers and trying to deploy best practices across all of them or 20,000 people in transaction processing or pick the area. So I guess, my long-winded point would be we think that those numbers are reasonable. We're on pace with where we would expect to be in November the year before of how much of that cost takeout is already booked and how much of it is to go, but obviously we still have to prove ourselves in delivering 2015.

Ben Reitzes - *Barclays Capital - Analyst*

Okay. Thanks a lot.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Thank you again.

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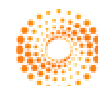

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Jim Suva - *Citigroup - Analyst*

Thank you. It's Jim Suva here from Citigroup, and thank you for hosting today.

A question probably for both Ursula and Bob on the Services side. Given how it's now already November, getting close for Thanksgiving, Christmas holidays plus midterm elections and you have some very big signings that have yet to be going through the appeal process or the protest process, do the midyear elections and the holidays impact that process at all? And as we are getting close to the end of the year. We're now getting a little hot under the collar about these things need to sign, get the protest period over, and get them going or are those things like the holidays and midyear elections completely independent?

And the second question is on the Services side you talked about how you didn't have enough breadth or coverage out there. Can you talk about -- is that adding more people, more skill sets, more risk, more abilities? And your competitors out there, how do you expect to gain share if you haven't been really competent in those areas and now you're going after those? Thank you.

Ursula Burns - *Xerox - Chairman & CEO*

I'll start with the holiday midterm elections because I want Bob to say the right answer, so I'll just say it for him. And then Bob can take coverage.

It's really hard to predict. It's very hard to predict what is going to happen when we deal with states. We're learning that every day.

What we decided to do is actually work with them in a very consistent manner, make it very, very clear to them what we expect, how we're operating and make sure that they understand how important it is for certain things to happen on certain days. That's all we can do. Unfortunately, we can't do much more than that by regulation and all kinds of other things.

I think that both particularly in New York, we have a good chance -- a very good chance of getting this done before the end of the year. But as you said it's the end of the year or so. We'll see. We're preparing us so we can get done. We know that I'm pretty confident we'll get it done, meaning I don't think that there's any -- there's a very low likelihood that it will not, that the protest will be won or the contract will be rescinded. But I can't tell you for sure.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

I guess, I would say just on one point because of the way you framed the question. I'm probably always hot under the collar...

Ursula Burns - *Xerox - Chairman & CEO*

Yes.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

...with the deal is going to get done irrespective of the midterm elections or holidays. But I would add to Ursula's I don't think that adds any particularly different dynamic.

On the question relative to sales, rarely we're beefing up our sales team and it's not a question of -- oh, you didn't have good salesmen and women. It was we really we're structured almost purely around individual offerings, and we didn't do nearly as much to develop longer term kind of sales consistent relationships with our leadership clients, and we weren't as deep. There's pockets where we were, but there were certainly pockets where we weren't deep on the knowledge of the industry so then we would apply more. Here's where our offerings can be leveraged to make you more successful in your business. So we're in a hiring process.

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And I'd take a little bit of time to then yield fruit. New salesman or woman doesn't come on in their first day then sell something. It takes time to invest them in the territory. But I am optimistic about that we have the opportunity to sell more by a little bit of broadening of our sales coverage.

Tien-tsin Huang - *JPMorgan Securities - Analyst*

Hi, thanks. It's Tien-tsin Huang from JPMorgan. I just wanted to ask a couple of on the Services side also, just first on the investments, the 50 to 60 bps. I'm curious, is that enough? How we know that number is enough considering looking a lot of your peers especially BPO, they're investing aggressively in tools and AI, areas of automation, so how do we know that's enough? And I'm curious how do we measure that beyond margins. Do we see better yields, higher revenue per FTE, a broader pyramid? And then I had a follow-up to that.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Okay. Well, one thing I think when you think relative to the competitors, 50 to 60 bps for us against the $12 billion revenue stream is more money than if somebody says I'm going to invest 100 bps and they're in a much smaller, narrow BPO business, if you will. So when I frame that I'm framing that against the $12 billion portfolio.

I mean, I guess, you'll never know in advance if it's enough. We think those investments are what it will take for us to get to next year's commitment relative to 2% to 4% revenue growth and on the track to get us to our long-term targets relative to revenues, and they are a mix of sales offering investments. But yes, we do think they're enough, but I guess, time will tell as we drive those.

In each of the businesses, I mean, because of our breadth, I have fairly a lot to cover, and I took up a lot of time as you were probably all going like is he ever going to get done. But we have software-as-a-service investments in a number of the businesses. We have leveraged the cloud. So I mean, again in some cases, the investment that you make maybe $3 million to $5 million and it's in an individual business that we think will take it to a higher level of growth.

Ursula Burns - *Xerox - Chairman & CEO*

And I think you should look at the investments even more broadly than the 50 to 60 bps that Bob talked about in acquisitions as well in our research portfolio very significantly.

We have turned our view from only a -- we have to manage our cost down in this business. We have to drive productivity. We had to realize and we did realize that if you win, if you go for a bid and you win 100% of the bids, which is basically close to what we were doing then you're not bidding enough, so one of the things that you have to do is open up the aperture a bit. And the only way you can bid more, go after more deals as to hire more sales people so that we want to actually lose a little bit more or participate more broadly so that we actually can win -- we can win more.

Tien-tsin Huang - *JPMorgan Securities - Analyst*

Yes, that's a good segue to my follow-up, which is I know we focused a lot on margins, but just on top line we're going to have to build up on the revenue chart. Two to three points on pricing investments, so still pretty heavy number.

I'm curious is there anything that can be done to sort of minimize that pricing investment because it doesn't apply quite a bit of give-up on renewals. Thank you.

Ursula Burns - *Xerox - Chairman & CEO*

The answer is we try like hell to make it less than three to five. It's a real result, and I think a proven and prudent way to look at the business.

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By the way, we should have a little bit of productivity in those deals as well, so it doesn't always flow totally to the bottom line, but when you renew on a like-for-like, yes, you should expect that the prices are down in that range. I don't think we can get around that.

By the way, anybody has a way to do that. We would be really happy to hear it.

By the way, most of the time just working with firms like your firm, who needs some of the price declines for us?

Kathy Mikells - *Xerox Corporation - EVP & CFO*

The one thing I'd comment on is clearly one of the things we try and do is once we have an existing contract, right, kind of move up the value chain with that client as well as cross-sell to bring other opportunities to the client, hopefully in our higher margin businesses. So one overall component of managing the portfolio is just trying to improve our business mix overall, right, and that's moving up the value chain and growing some of our higher margin businesses at a faster clip.

Ananda Baruah - *Brean Capital Markets - Analyst*

Hi, thanks. Ananda Baruah with Brean Capital.

Two, if I could. The first, Bob, just going back to the Services margins, what are the biggest risks to the plan that you guys laid out today? The plan sounds really well-thought-out, very thorough, quite robust. And it actually occurs to me -- probably all of us -- that a lot of the components seem to be in your control. So what are the biggest risks to the plan? I guess, what are the biggest risks to the plan and, I guess, which of the areas where when you walked in maybe you said -- oh, got it? These things seem fairly straightforward to me as things that have been missing over the last couple of years.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Well, I would say from a risk standpoint, in any Services business, there is always the risk that there are some client situation that seems like everything is going great, and all of a sudden you're like -- holly molly, I got a big problem here, so we don't anticipate that. We factored for some level a normal, if you have a problem with [ABC Co.], but we haven't built in some -- oh, you have a disaster at a client and there's a big lawsuit of a big failure or whatever. So that is not unique to Xerox.

We've got a little bit of experience here. That would be just normal in the Services business on the far end of the bell curve, if something happens that you don't expect.

And your other question, I'm sorry?

Ananda Baruah - *Brean Capital Markets - Analyst*

The second part to that one was which of the components of the plan were things that when you walked in seemed fairly obvious to you as things that had been missing over the coming previous years.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Yes, I would say it was less of things that had been, quote, "missing," unquote in a little bit more, and I tried to mention this briefly a little bit more that we had some, I thought, very good well-thought-out, but maybe more macro level strategies. And then the engineering of how are we going to measure, how are we going to measure whether we were making progress on the initiative or not and whether we were getting the outcome or not. We were just not quite as fully engineered as a I feel like we are today.

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Ananda Baruah - *Brean Capital Markets - Analyst*

Got it.

Ursula Burns - *Xerox - Chairman & CEO*

I think it is a big, big deal here. This theme that we call operational excellence I said in the broader sense, and so you get a plan -- and this is something that we do in Doc Tech, and we do it actually very well in some other parts of the Services business even.

You get a plan and you get a structure. And some of it is big movements, not big movements of dollars, but big movements of people and structure. And the structure that we had before made it very difficult to track something through all of the Services business. So if you're going to do some analytics platform to move it through hundreds of different small units was very, very challenging. It was very difficult to track.

And what we've done literally is kind of turn the organization a little bit on its side in a very organized and very thoughtful way, and it's basically for the capabilities group done to actually have a single point of excellence leader and making sure that we can actually drive initiatives through very large types of people. It's a big -- it's a big deal.

Ananda Baruah - *Brean Capital Markets - Analyst*

That's really helpful context. I mean, in that regard is it -- is it such that it will be accurate to call it a culture shift inside the services organization or does it lean more tactical?

Ursula Burns - *Xerox - Chairman & CEO*

No, it's definitely not more tactical. It's definitely a culture shift.

Ananda Baruah - *Brean Capital Markets - Analyst*

Okay.

Ursula Burns - *Xerox - Chairman & CEO*

I hate the word "culture" because it sounds like we have to kind of do lobotomies on people. It's not that.

Ananda Baruah - *Brean Capital Markets - Analyst*

Hey, you got one though, Ursula, whether you want it or not.

Ursula Burns - *Xerox - Chairman & CEO*

Yes. What I mean is that the way that this business grew up, which was very positive for the business was that you had individual kings and queens around the customer. And that individual kings and queens about a customer -- by the way, the customer could be a small contract. It could be a big contract, but it was lots of different sizes. That actually made it very difficult to actually use scale as an advantage, to actually drive process across many different lines of business that are doing the same thing, many different contracts that are doing the same things.

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So the balance that we have to have right now was implement that, which we're doing, but also try to keep the spirit that the business had of not seeing anything too big to pursue. You know, that kind of entrepreneurial spirit is what we have to balance.

I am absolutely at the point where I'm willing to lose a little bit of that entrepreneurial spirit for a year or two to make sure that we can get some of the discipline and just driving through a simple initiative of A, or B, or C in a predictable visible way for us, and that's -- it is a tradeoff that we're making it. It's a little bit of culture. But I think that we're doing it with our eyes wide open and do what some of the downside could be, and we're going to protect -- try to protect as best as we can against the downside.

The leadership that you'll meet at lunch, it is these guys' job to do this. We brought in some new leaders, we've moved people around. We had an excellent foundation already in Services, so we've actually now changed the structure and focus, and emphasis so that they can actually operate the business better so.

I have no idea what time is it -- what time it is. We have time? Good.

George Tong - *Piper Jaffray - Analyst*

Hi, George Tong with Piper Jaffray.

Ursula Burns - *Xerox - Chairman & CEO*

Hey, George.

George Tong - *Piper Jaffray - Analyst*

Hi. Focusing in on your planned investments in Services for 2015, 50 to 60 basis points, how does that compare with 2014? What are the sources of potential upside or downside versus that 50 to 60 basis points? And how do you see that evolving over time as you exit 2015?

Ursula Burns - *Xerox - Chairman & CEO*

Why don't you get that?

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So, George, those are incremental investments. So the reason we bothered to call it out was if it was just, if you will, kind of normal run rate. I mean, we were investing in the sales force before. Obviously, we had a sales capacity. We were investing in our offerings. Those are incremental investments and that's the reason that we made it a little bit more explicit in our 2014 to 2015 bridge.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

And importantly, that will then be in our base for 2015 as we look out to 2016. So while we may have a little bit more investment there, it's a pretty big increment to put in our base then for 2015 and have it there on a go-forward basis.

George Tong - *Piper Jaffray - Analyst*

And sources of upside or downside?

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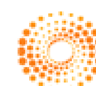

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Ursula Burns - *Xerox - Chairman & CEO*

Revenue is a big one I'm looking for. And the operational excellence piece I think we talked about. But hiring new sales people, I don't think we're going to get it in the beginning. As Bob said, you got to get them on board, you got to get them hired, et cetera, et cetera.

But we have really good offers in some lines of businesses like commercial in general, commercial health, transportation, even government health actually. We have some great offers, TBO, HR business, and we need more people out there selling them. By the way, we're hiring them now, we're hiring leaders now.

I think we just made an announcement this morning, yes.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

But we could moderate those investments marginally if we chose to. I mean, that is when you decide you're ramping up sales or you're putting more money into the offering portfolio, it's not like you just give the leaders, here's $10 million or $20 million or $30 million and come back and talk to me in a year. We'll be watching and we'll be trying to make sure that we're making milestones and are on track with those investments.

But I mean, again I would expect to be in that kind of a range. We're trying to invest to drive growth. We think we can drive growth in signings, revenue, and profit. So -- and it's not in the general scheme of a business our size. At least in my view, it's a rational investment level still with us then driving margin improvement even with that. That's the way that we thought about it.

George Tong - *Piper Jaffray - Analyst*

Thank you.

Ursula Burns - *Xerox - Chairman & CEO*

There's somebody waving at the back.

Brian Essex - *Morgan Stanley - Analyst*

Over here.

Ursula Burns - *Xerox - Chairman & CEO*

We got you.

Brian Essex - *Morgan Stanley - Analyst*

Hi, it's Brian Essex from Morgan Stanley. Maybe if I could address Kathy, Bob and Jeff. All three of you are relatively new, so to speak, within the past couple of years. Maybe if you can help me understand the culture within the company, particularly Bob as you've joined in the IT Services side, and I've heard about some pretty impressive hirings from competitors on that side. How was the culture changed since you've been there and how is that maybe a leg to help you grow that business to the goal of two-thirds of revenue in a couple of years? And might we be looking at a scenario or are there potential triggers to get it to maybe 75% in that timeframe.

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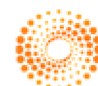

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Ursula Burns - *Xerox - Chairman & CEO*

We'll start with Jeff, and then we can go to Bob.

Jeff Jacobson - *Xerox - President, Xerox Technology*

It's interesting. So having been here a little less than three years, I resonate with the cultural comment because when I competed against Xerox, as I mentioned earlier, what I always saw what I call internally the power of Xerox. It's the market reach. It's the portfolio. And I think people who grow up in the company, sometimes you take that for granted and competing against it and seeing if you really unleash that power and you bring everything you have to the customer and you start managing the details, so we're managing great detail.

It's funny. Sometimes people classify me as really customer-driven, which I am, but it all starts with the backroom operations in understanding the marketplace and what are you going to bring to that market and how you're going to bring products through. We go through detailed operations view. When Ursula talked about operational excellence on a monthly basis we go through the P&L, we go through the balance sheet, we go through the customer funnel. We know our numbers and that's what drives us.

And we manage -- when I say some more conservatively, we kind of manage bottoms up, meaning preserve that profit number first, understand the risks you have in that revenue number, and then make sure you have the productivity built in to preserve that bottom line.

Now what we're doing is I tell my team we have to walk and chew gum, and you get that revenue stream going as well. And the beauty is from the technology standpoint, we haven't grown this business in a number of years. Culturally, my job is to teach this team. We don't have to decline 6%. The market is going down a few points. We can at least first mitigate that and get to the market rates. And if we do that, this business on the technology side will be better than it is today.

Ursula Burns - *Xerox - Chairman & CEO*

Bob?

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Yes, I would just share from a culture standpoint, I feel like the Xerox Services culture is very strong, very positive, I mean, very customer-oriented. So I didn't really view culture or I don't view today culture as being some area on the top of the list that needs reengineering. I think that the thing that we are on is that the customer-oriented culture structurally we tended to operate around the 2,500 kind of owners.

And to get the scale leverage that we believe we can really generate benefits for shareowners and clients, we need to move more of the teaming in two-dimensional model. And some of the outside hiring that we're doing, we believe has got the same customer culture, but good experience in a two-dimensional model to deliver value for clients. But the core culture at ACS historically, I competed with ACS and Xerox Services before joining the firm. And in the unit that I generated, I like. I mean, client-oriented, very positive.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

And so the last comment I'd make is, in coming to Xerox, I was really pleased that it's not an insular culture. I think Xerox, as somebody who's a relative newcomer, really has a willingness to accept and listen to new ideas. Xerox isn't -- we're not a company of executives who think we have every single thing kind of perfect, right? There's plenty that we can do better.

I think people overall in the business are quite humble even though we have executives like the ones I'm sitting up here on the stage with that bring real depths of experience to the table. And that really gives people I think an ability to kind of come in and roll-up their sleeves and add value. So I've been really pleased overall by the company culture.

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Brian Essex - *Morgan Stanley - Analyst*

Okay. Thank you.

Jamie Friedman - *Susquehanna Financial Group - Analyst*

Thanks. It's Jamie Friedman at Susquehanna. I appreciate the incremental disclosures today. I wanted to ask with regard to your Commercial Services organization, do you see any reason why the onsite offshore ratios can't mimic that of industry norms?

I think last year you had committed to certain metrics. I'm doing this from memory. I think it was 90% down to 75% over three years. If you can refresh your thinking with regard to your workforce optimization relative to delivery, that would be helpful. Thank you.

Ursula Burns - *Xerox - Chairman & CEO*

Good question.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Okay. So, Jamie, first I think the thing on, quote, "industry," unquote industry norms we really do need to look at it kind of business area by business area because we have some where you would have kind of a completely different competitor set than others. So this is maybe a fractionally peripheral point, but we were just looking at our top 10 businesses.

And if you look at the top two competitors in those 10 businesses, you get 16 different firms. So you don't end up where you can just kind of mirror against one or another.

That said, we largely executed. We didn't completely executed, but we largely executed on the first phase relative to capitalizing on talent in lower cost countries. We're going to continue to push that envelope, so I don't expect that to really change it all.

And, in fact, the capability structure that Tom is leading part of what it helps with is these leaders can look and say -- wow, I've been able to do this with some industry or some set of accounts and not with others, so how do I leverage it more broadly.

But we're also looking at productivity irrespective of what country the work is performed then, so we're trying to drive labor productivity that isn't just move work to lower cost locations, it's to engineer process design, use software, take steps out of the process so that you can get some elements of the work done with less people.

Ursula Burns - *Xerox - Chairman & CEO*

I think, by the way, just building on Bob's point, I agree with all of them. The new structure will allow us to manage the business a little bit like you just said.

So what's the most you can do? It's hard to do when you have 2,500 things. But what's the most that you can do and let's push towards the most we can do. Offshore, so right-shored, technology applied, whatever the mix is, and there should be no excuse for us to not optimize our cost base however we do it.

Some contracts, obviously, you can go offshore because that's required. But when it is necessary for us to go offshore or use some other flexibility, you should expect us to be able to do that. And absolutely, we will do that.

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It's easier to do in the structure that we have today than in the structure we had in the past.

Bill Shope - *Goldman Sachs - Analyst*

Bill Shope, Goldman Sachs. Over here.

Ursula Burns - *Xerox - Chairman & CEO*

Bill, how are you?

Bill Shope - *Goldman Sachs - Analyst*

Good. How are you? I want to focus on the Document Technology business if I could. First of all, Kathy, could you remind us of what percentage of free cash flow currently comes from this business and how you see that evolving as you get towards a target model? Go ahead.

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Go ahead, sorry.

Bill Shope - *Goldman Sachs - Analyst*

And then the second question will be for Jeff on that business specifically. You had mentioned the opportunity for expansion particularly with the focus on SMB and the channel. How material is that for the long-term model? And specifically, how are you attacking that in the near-term? Is that organic channel expansion or is there an incremental M&A components of this?

Kathy Mikells - *Xerox Corporation - EVP & CFO*

Okay. So I'll start. We don't specifically disclose kind of cash flow by business segment. But if you look at the overall drivers between the two different businesses with Doc Tech kind of running it, overall higher margins. And with the shrinking in Doc Technology, basically enabling a little bit lower capital use on things like inventory and receivables and the like, more of our cash flow is driven by Doc Tech relative to Services.

But importantly, if you look at our underlying cash flow and our cash flow dynamics year-to-year as the business continues to kind of shift towards Services and change. I think what's really important is that our cash flow continues to be quite strong, very stable, modest expectation of operating cash flow improvement 2015 of about $100 million. So from my perspective, the cash flow dynamics are quite strong, and I'd expect that to continue to be the case.

Ursula Burns - *Xerox - Chairman & CEO*

Jeff?

Jeff Jacobson - *Xerox - President, Xerox Technology*

Yes. So, Bill, on the SMB market, if you remember it was 71% SMB market of the office environment with MPS in it. So if you go to our entry shares, we basically have mid-single-digits. If you go into multi-branded SMB dealers, we're even lower than that. So for us it's a big incremental opportunity.

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We do a very good job of working with mono brand dealers. What we have to do is expand our horizons, have our channel managers focused more on where can we go in where we don't have relationship today and what I call the Pac Man strategy -- go in, establish a beachhead and then start eating away. It's not going to be dramatically incremental in the beginning, but when you go and you get that slow ramp and it's all incremental, new business for us, margins and relationship.

I counted Global Imaging again, which in 2007 we acquired the business which was $1 billion business. Now it's almost $2 billion. Once that was multi-brand dealer for us or channel for us. Now it's basically mono-brand, so we have to go out and do similar things in Europe and in the US, so it's certainly a big part of our strategy, which candidly is a bit of a new focus for us now.

Ursula Burns - *Xerox - Chairman & CEO*

Yes, we talked about this a little bit last year when Armando made the presentation, and we made progress from that last year. Jeff said all that he can about the channel piece. Products we are continuing to invest primarily in partnership with Fuji Xerox and to launch new offers.

And we have almost a decision point every month, every day in how we actually engage developing markets because that is a balance that we have to actually pay attention to given the geographies there and sometimes the unsettledness of the political situations, and how much are we willing to sell on equipment, and hope that you get the post-sale later depending on how the environment is.

So we manage it very carefully to make sure that we can get first profitability and cash, and then revenue. So what Jeff's mission and part of this culture change is a little bit of a focus more on revenue without giving away any of the margin that we can get. And it's a delicate balance that Jeff is going to try to pull off in 2015 and get less revenue decline and equal to or higher margins. It's going to be an interesting -- this is how he's going to be paid next year. If he can do both of those things, we'll be really happy. But that's the focus for 2015 -- little bit less revenue decline and holding the margins X the pension expense as well as strong as they've been, so we're going to have to use all the channels that we can to do that.

Then we have time for one more question. Smile. That's better, yes.

Unidentified Audience Member

Thank you. I appreciate the slides here, by the way, they were very helpful.

Two key areas. Your growth rate in Services, your CAGR is supposed to be 7%. I don't think we've seen a 7% CAGR in that business in a long time. I was hoping you could be a little more explicit since you're only going to be 2% or 3% in '15, how you're going to see 8%, 9%, 10% growth thereafter to hit that target. That's the first question.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Okay. So we were at 7% in 2012, but we're clearly off, right? So we're at ballpark flat this year and maybe a fraction above and 2% to 4% next year.

To get to that target, we really have to do its execution on the four or five areas that I outlined. So first we think the contract run-off component is never going to go to zero, but ought to be down a point versus the component that it was for us this year.

Second, we think the acquisitions component really ought to be up a point, so we're getting one point of growth out of acquisitions this year, and where our target is 2% to 3%, but let's just say add one for simplicity.

New contract yield, we've got nothing, right? We have no revenue flow from new contracts. Success in just New York and Florida by 2016 would give us a point to a 1.5 points of revenue growth, so you're at 3.5 there. A big piece of the rest has to come from improved science.

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Ursula Burns - *Xerox - Chairman & CEO*

Yes.

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

So at the core we've got these initiatives relative to cross-selling. Our signings component is down. We don't need to take it through the roof to be able to get back to a 7% kind of revenue growth range, but we do need to improve our signings dynamics to get back to the high end of mid or the low end of high depending on how you define 7% so.

Unidentified Audience Member

And would that include international as well?

Bob Zapfel - *Xerox - Corporate EVP, President, Xerox Services*

Yes, I'm sorry that I skipped it. So international has contributed a point of growth, and I would expect it to at least contribute that. And if we got a player on 12 specific markets, we've done a lot of work on it in which industries, in which offerings, that could potentially add another point to the growth dynamics.

And again that doesn't mean growing at one point, that means if I'm five in the US and 12 outside the US as the mix shifts, how much does that add to the total?

Unidentified Audience Member

Thank you. Now shifting to Jeff a little bit, when I hear you speak I get very excited because you're talking about actually growing a business that's been declining, and then I see the slide and it says down mid-single-digits. There seems to be a big disconnect between your enthusiasm and things that you have talked about precisely on that low bar. So can you....

Jeff Jacobson - *Xerox - President, Xerox Technology*

Our financial words, we're mitigating declines first so you go from a...

Unidentified Audience Member

I understand that, you have to crawl before you can run.

Jeff Jacobson - *Xerox - President, Xerox Technology*

...you go from a negative six, negative six, negative six. You have to demonstrate that you can do better than negative six.

I think I laid out with developing markets. I think we could probably get close to a point there. I think with the financing receivables unfavorable compare improving, we get a point there. That's where Kathy -- and that's a constant currency because we do have some unfavorable translation currency coming. And then it's about our sales productivity and the things that when I first joined the company we did, the Graphic Communications we're rolling out throughout the rest of our businesses and, you know, I'm optimistic, cautiously optimistic that we'll see improvement there, so.

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Unidentified Audience Member

Well one thing you talked about over the summer when you hosted us, which you didn't fully elaborate on here was all these new products were filling voids in your portfolio and you didn't really give us that connection as to how much those might add.

Jeff Jacobson - *Xerox - President, Xerox Technology*

Yeah. So you will see, as Kathy mentioned, the twenty-three new products mostly came out in the third and coming out in the fourth quarter. And Versant, which is in the higher end. I think we'll start to see the benefits of that certainly as we roll out.

Unidentified Audience Member

And the last.

Ursula Burns - *Xerox - Chairman & CEO*

Thank you for that. Well I think we're going to have to wrap-up, you can take your last comment and then you should take the mic away.

Unidentified Audience Member

Well since I'm the only buyside that got to ask, I appreciate you letting me go a little.

Ursula Burns - *Xerox - Chairman & CEO*

No, go ahead.

Unidentified Audience Member

So why don't you cancel the lump sum pension payouts and just have annuitized. It's been a headache for the last four years, it's hurts your earnings is that.

Ursula Burns - *Xerox - Chairman & CEO*

And I'm not.

Unidentified Audience Member

Is that mandatory that you have to give that?

Ursula Burns - *Xerox - Chairman & CEO*

I'm not going to answer. I'm going to have Kathy, if you really want to get into; it's not anywhere near as possible or easy, as easy as you said, obviously. By the way, thank goodness for the retirees it's not, as you said. But if you want to get more into some of the technicalities as to why it's not possible, why don't you talk to Kathy afterwards. Okay.

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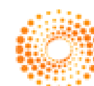

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So thank you again for your time and your interest this morning. Good questions. We did spend a bit more time but I do hope that the detail that we gave you will help you better understand how Xerox is well positioned to deliver growth and world changing work solutions for our -tomorrow's enterprises.

And as we wrap-up I'd like to share the questions that you should be asking us as we manage the business. They're as follows: Are we delivering on our Services lead growth strategy? And most importantly, improving the profitability of the Services business? Are we continuing to see profitability and pockets of growth for our Document Technology business? Is our portfolio differentiated enough? Are we delivering research driven solutions? Could we be more committed to the success of our customers and our employees? Is our annuity based business model generating the cash flow that we need for growth? And do we have the financial strength to invest in building value for our shareholders? Keep asking us those questions and keep an eye on Xerox. I think you'll be pleased with how it's going to come out. I really feel good about the business. I feel good about our strategy and I feel great about our team.

And for those of you who are joining us on the web, this concludes our session and thank you for your participation.

And for those of you who are joining us for lunch, we're going back to the seventh floor.

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