PARTICIPANTS

Corporate Participants

Giovanni Visentin – Vice Chairman & Chief Executive Officer, Xerox Corp.
William F. Osbourn – Executive Vice President & Chief Financial Officer, Xerox Corp.
Ann Pettrone – Vice President-Investor Relations, Xerox Corp.

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Shannon S. Cross – Analyst, Cross Research LLC
Matthew Cabral – Analyst, Credit Suisse Securities (USA) LLC
Ananda Baruah – Analyst, Loop Capital Markets LLC
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Xerox Corporation Second Quarter 2019 Earnings Release Conference Call hosted by John Visentin, Vice Chairman and Chief Executive Officer. He is joined by Bill Osbourn, Chief Financial Officer.

During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor. At the request of Xerox Corporation, today's conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the expressed permission of Xerox.

After the presentation, there will be a question-and-answer session. [Operator Instructions] During this conference call, Xerox executives will make comments that contain forward-looking statements, which by their nature address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

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

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

Good morning, and thank you for joining our Q2 2019 earnings call. This quarter we delivered improvements in earnings per share, adjusted operating margin and free cash flow, largely underpinned by our enterprise-wide transformation initiative, Project Own It. These results have enabled us to increase planned investments for the second half of the year to advance our revenue roadmap. We expect to see returns from these investments over the near-term. But in light of the performance in the first half, we believe it is more prudent to adjust our full-year revenue guidance down to approximately 6% at constant currency, while maintaining all of our other full-year guidance measures.

Adjusted operating margin for the quarter was 12.7%, up 170 basis points year-over-year. Margin expansion contributed to adjusted EPS of $0.99 in the quarter, up $0.19, or approximately 24% year-over-year. We are pleased with our cash performance. We generated $313 million of operating cash flow in the quarter, an increase of $78 million from a year ago.

Free cash flow in the quarter was $297 million, up $94 million year-over-year. While we continued to see improvements in these three key areas, revenue for the quarter was down 7.2% at constant currency year-over-year. Results were due to weaker economic conditions in Western Europe and certain developing markets, and continued operational impacts in the United States we identified last quarter, albeit improving as the quarter went on.

Our strong margin expansion year-to-date has allowed us to increase the level of investments we planned for the year from approximately $0.32 of EPS to approximately $0.40 of EPS. These increased investments will primarily be in support of revenue-generating initiatives.

With anticipated annual gross savings of at least $640 million, Project Own It is offsetting some of the impact of revenue declines. This initiative is helping us to simplify our business, drive a culture of continuous improvement, and free up capital to reinvest in the business. Planning has begun for 2020 programs that will continue this focus.

We are on schedule with transitioning our shared services operations to a managed service provider, which will reduce cost and make it easier to do business with Xerox. With a large-scale transformation like this, we anticipate that there would be some impact on operations, but we remain focused on responding to and mitigating risks associated with this transition. We are on track to stand up our automation center of excellence to leverage robots to streamline repetitive tasks such as responding to breakfast request via the call center. Today, we have 150 bots and have plans to add more by year-end.

One other key component of Project Own It is rationalizing our supply chain. Our supply chain operations have become more efficient and inventory levels have improved, but there's more work we can do here. We are making several upfront investments to grow our market and wallet share in large accounts and within the small- to mid-size business market.

We see a significant opportunity for IT Services within the SMB space. Today, three of our Xerox Business Solutions cores offer IT Services to clients such as the 10th largest school district in the United States. With the competition fragmented and often regional, XBS is well positioned to capitalize on this growing market. We are ramping up our operations and capabilities to expand IT Services to about a third of our XBS cores by the end of the year, and we will roll it out to the rest of the cores and Europe in 2020.

This month, we started working with American Express to market to their Small Business Card members through the Amex Offers program and other channels to further increase our penetration of the SMB market. This multi-month multi-channel digital program focuses on increasing business owners' awareness of DocuShare, XMPie, our ConnectKey Apps and workplace multifunction printers.

In June, we announced a multipart agreement with HP, which opens up additional revenue opportunities and new routes to market. Starting in 2020, HP will make DocuShare Flex, Xerox's cloud-based content management platform, available on PCs and tablets sold to SMBs in the United States. Another component of this agreement will allow us to source toner, which will add volume to our toner plants.

Growing our software and services business is key to reversing of revenue trajectory for the long-term. And we are gaining traction with several new clients, such as Morgan Stanley and Motorola with additional major deals in the pipeline. With Morgan Stanley, we offer the bank a unique value proposition to help drive the digital transformation with Intelligent Workplace Services, which advances traditional Managed Print Services with a suite of tools including analytics, digitalization and ConnectKey technologies that boost efficiency, security and productivity.

As the only OEM provider with FedRAMP authorization, Xerox continues to lead the industry in security. This differentiator is a driver of new opportunities, particularly with public clients like the County of San Diego and Commonwealth of Massachusetts. This momentum with the public sectors carrying over into the third quarter with large contract renewals with clients such as the State of Texas already secured.

This quarter, we announced several new products that increase our ability to capture incremental volume and expand our presence in the emerging markets. We launch an embellishment kit for our high-end A3 products in EMEA. What is unique about this technology is we can turn a standard office printer into a device that can print materials with metallics, similar to the more advanced Iridesse. It allows us to offer this technology at an aggressive price point. We have a big install base, which allows us to upsell our clients and drive incremental volume. This add-on kit allows them to charge a significant premium over traditional print. We will continue to leverage our first-mover advantage on other surrounding products in the coming quarters.
Last week we introduced a new suite of black-and-white multifunction printers, which feature similar to our high-end office devices. These products enhance small office mobility without compromising image quality, security or the user experience. We continue to lead in market share in the high-end production category. The momentum we built with the Iridesse Production Press and Brenva HD Production Inkjet Press carried through from the first quarter, enabling us to remain nearly flat for the quarter.

Cut-sheet production inkjet remains an attractive category for us. At the end of June, we announced our newest Inkjet Press, the Baltoro HF, which replaces the Brenva. We engineered and manufactured this press from end-to-end. Our Baltoro, we believe, leapfrogs the competition. It is half the size, uses half the power consumption, and significantly reduces clients' total cost of ownership. It also is the first press in its class to leverage automated intelligence and deliver true HD image quality. We remain focused on our innovations for the future, which includes 3D printing and digital manufacturing, digital packaging and print, sensor and services for the IoT, and AI workflow assistants.

Some of our innovations, such as IoT sensors have moved into demonstration phase. We started working with Con Edison to pilot using our fiber-optic sensors on transformers in Queens, New York. These sensors allow companies to monitor assets and determine maintenance needs, reducing the need for costly physical site inspections. We are testing similar technology on bridges with VicTrack, the owner of the Victorian government's rail transport land in Australia.

With infrastructure deteriorating across significant regions of the world, we are looking at ways to scale this technology and use it on critical assets. We're now working to identify and prioritize high-value target applications with the broader strategy and building out focused business cases to define the areas where we will target IoT sensors that deliver transformative data insights.

Our heightened focus on cash is driving results. Free cash flow in the second quarter was $297 million, up $94 million year-over-year. Our June year-to-date free cash flow was $508 million, an increase of $107 million from the prior year. We repurchased $197 million of our shares in the quarter and distributed $60 million in dividends. Year-to-date, we have repurchased $300 million of our shares, consistent with our plan for the first half. We expect to repurchase at least $600 million of our shares for the full-year, with the remaining share repurchases to be weighted towards the end of the year.

Over the last year, we have strengthened our balance sheet which enables us to look at additional M&A opportunities. While we don't comment publicly about potential targets, we have a broad M&A pipeline that is designed to support our strategic initiatives. That pipeline includes tuck-in acquisitions to help us penetrate further into the growing SMB market, like the two multi-brand dealer acquisitions we announced last month.

We also are continuing to evaluate strategic alternatives for our leasing business. We've said all along that this is a good and an important part of our business, and there may be no change. However, we are evaluating options to make even better use of our balance sheet. We are taking our time to get this right for us, for the business, and for our clients.

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

William F. Osbourn, Executive Vice President & Chief Financial Officer, Xerox Corp.

Thanks, John. Looking at our financial results, we continue to see improvements in adjusted operating margin, free cash flow, and earnings per share. Margin improvement reflects the progress from Project Own It initiatives that are now mature programs delivering the results we expected.

Combining adjusted operating margin improvement with benefits from higher equity income and lower shares resulted in strong adjusted earnings per share expansion of 24% year-over-year. While revenue for the quarter was below expectations, as John discussed, given our first half results, we are adding to planned investments this year from the initial planned $0.32 in EPS to approximately $0.40. The majority of these additional investments are targeted to improve our revenue trajectory for the balance of 2019 and beyond.

Importantly, we are maintaining our full-year adjusted EPS guidance of $3.80 to $3.95, and annual free cash flow of $1 billion to $1.1 billion, although, we now expect full-year revenue to be down in the range of approximately 6% at constant currency.

Let me emphasize that we remain focused and committed to transforming the business and are making investments for the long-term while sustaining a profitable business in the near-term.

I will now review the income statement in more detail. Total revenue declined 7.2% in constant currency and 8.8% in actual currency. The constant currency decline was in line with what we experienced in the prior quarter but, as mentioned, was below our expectations. We saw areas that performed well such as high-end color systems fueled by continued demand for our Iridesse Production Press; and areas where our new revenue initiatives are starting to gain traction, such as in our software and services business; and our win rate for new business signings improved in the quarter.

However, we did see continued impact from the ongoing organizational changes as a part of Project Own It transformation actions, which we discussed last quarter, as well as some weakness in EMEA and certain developing markets. I'll discuss revenue in more detail in a moment.

Turning to profitability. Adjusted operating margin of 12.7% improved 170 basis points year-over-year and drove $14 million in adjusted operating profit growth as the decline in revenue was more than offset by benefits from Project Own It and other investments as well as higher prior-year one-time costs associated with the termination of an IT project and the accelerated depreciation associated with the exit of a surplus real estate facility.

Gross margin of 39.2% declined 70 basis points year-over-year, with approximately half of the decline attributed to transaction currency and the remainder due to lower mid-range equipment sales, as well as targeted price actions of certain large multi-year contracts, where initial years are less profitable. These impacts were partially offset by cost productivity. Project Own It drove 130 basis points of the 220 basis points improvement in SG&A year-over-year, while the aforementioned prior-year one-time costs contributed to 90 basis points of improvement.

RD&E was 3.8% of revenue, which was 20 basis points lower year-over-year. The decline was partially due to timing of projects that are expected to ramp later this year. Below operating profit, equity income of $34 million increased $15 million year-over-year, primarily reflecting benefits to Fuji Xerox from restructuring actions. Other expenses net of $38 million was $1 million better than the prior year, primarily as a result of $15 million of lower pension expense in 2019 in our retiree health plans, which was offset by the impact of a $16 million gain on an asset sale in the prior year. The lower pension expense was excluded from adjusted EPS performance and the prior-year asset sale gain was included in adjusted EPS.

Overall, adjusted EPS of $0.99 was up $0.19 from the second quarter of 2018 due to improved operations, share buybacks, higher equity income, and a lower tax rate. GAAP EPS of $0.77 was $0.35 or 83% higher compared to the second quarter of 2018, reflecting the higher adjusted EPS as well as lower transaction-related costs in 2019.

We adjust GAAP EPS for restructuring and related costs, including restructuring related to Fuji Xerox, amortization of intangible assets, transaction costs and related costs associated with the terminated Fuji transaction, non-service retirement-related costs, and the tax on these adjustments. In Q2, we reported $37 million of restructuring and related costs, bringing the first half total to $149 million, and we continue to expect approximately $225 million of restructuring charges for the full-year.

Moving now to slide 7, which is our cash flow. Last quarter I told you that we got off to a good start in cash and I'm again very pleased with our strong cash performance this quarter. We generated $313 million of operating cash in the quarter, which is up $78 million year-over-year; and free cash flow was $297 million, up $94 million. Key cash flow drivers in Q2 included a lower use of cash from accrued compensation, $11 million in Q2 2019 versus $69 million in Q2 2018, as we moved the timing of our payment of the 2018 annual bonuses into Q1 this year, whereas this was a Q2 event last year, an $18 million source of cash from working capital reflecting lower use of cash and inventories, which more than offset the decrease in cash flow from accounts receivable. Lower inventories reflect lower sales volumes and improved inventory management and the decrease in cash from accounts receivable is due to timing of collections.

Contributions to defined pension plan of $36 million was nearly flat year-over-year, and we had a higher use of cash from restructuring and related payments, including $48 million of restructuring-related payments reported in other current and long-term liabilities, which were primarily related to severance payments associated with the shared services arrangement recently entered into with HCL. Restructuring and related payments were $70 million in the quarter, or $32 million higher year-over-year. We continue to expect approximately $200 million of restructuring and related payment in the full-year.

During the first half of 2019 we generated $539 million of operating cash flow and $508 million of free cash flow. CapEx of $31 million through June is lower than initially anticipated and is likely to be less than the $150 million originally guided for the full-year. Accordingly, we are likely to be in the higher end of our free cash flow range of $1.0 billion to $1.1 billion full-year.

Lastly, within financing cash flows, we returned $257 million to shareholders in the second quarter, consisting of $60 million in dividends and $197 million in share repurchases. Through the first half, we returned $423 million to shareholders, including $300 million through share repurchases and we expect to repurchase a total of at least $600 million of shares in 2019.

Important to note that we expect the incremental $300 million of share repurchases to be weighted towards the end of the year in line with our free cash flow generation. We ended the quarter with $776 million of cash, which reflects the use of cash in Q1 to repay approximately $400 million in bonds.

Let's turn now to slide 8, and I'll review the second quarter revenue dynamics in more detail. Second quarter revenue declined 8.8% or 7.2% in constant currency, and included a negative 0.6-point impact from the OEM business. Results reflect continued impact from the operational changes as well as weaker macroeconomic conditions in Europe and certain developing markets.

Looking at details, this quarter I'll start with equipment, which was down 10.2% or 9% in constant currency. The decline was driven by lower sales of our entry in mid-range products, which are the product categories most impacted by the organizational changes, particularly in our XBS organization.

As we discussed last quarter, we took actions in late 2018 and in Q1 2019 to make the organization more agile and better fit to serve the SMB market, both our current customers and the market opportunity to expand at SMB. While the actions continued to negatively impact Q2 revenue, we are seeing some stabilization in the operations, evidenced by improvement in the rate of revenue decline in the latter part of the quarter.

In addition, weaker economic conditions in EMEA and certain developing markets impacted sales of mid-range devices in those regions, where we experienced delays in large deal closings. In the high-end, we saw continued demand for Iridesse Production Press and higher installs of our Brenva inkjet cut-sheet system.

We very recently announced a new system for the inkjet cut-sheet space, the Baltoro HF Inkjet Press that has already been well-received and we expect it to be a tailwind as we move through the second half of this year. The growth in these areas partially offset the declines in black-and-white installs, which is consistent with market trends, as well as the pressure on iGen.

Post sale revenue declined 6.6% in constant currency, which was a slight improvement over the rate of decline in Q1. Within post sale, we saw the contractual component declining on trend and similar to the rate of the decline in Q1, reflecting the impact of lower page volumes, prior-quarter's equipment sales declines, and higher mix of lower usage products. We also saw transactional supplies revenues declining at a rate similar to last quarter, but higher than the trend in the prior year. The declines were mostly in our developing market regions and in our indirect channels in the U.S., and reflect the lower page volume trends as well as the timing of sales within our two-tier distribution channel.

Services revenue, which is included as a part of both equipment sale and post sale revenue streams, declined 4.1% in constant currency and is impacted by the factors mentioned above. We expect improvement in services as we continue to invest in coverage and new offerings.

To wrap up on revenue, it is important to understand why the second half performance will improve. As I mentioned earlier, the rate of decline improved in the latter part of the quarter and we expect this trend to continue as we make progress toward fully stabilizing the business, following the implementation of important strategic initiatives to transform the company for the long-term.

Also, within EMEA, we expect certain deals that were delayed in Q2 will be finalized within the second half of this year. In high-end production, we have continued demand for our Iridesse Production Press and just launched a new press, the Baltoro HF. We also expect OEM will be less of a drag for the second half of the year at around 0.5 point. Importantly, we are making investments in future revenue. John reviewed several of the investment areas and highlighted partnerships, new products and programs that underpin the path to improve our revenue in the second half and beyond.
Turning to slide 9. As mentioned earlier, adjusted operating margin of 12.7% increased 170 basis points year-over-year, while adjusted EPS of $0.99 increased $0.19 or 24% year-over-year, another strong quarter. This positive trend reflects the progress of Project Own It programs, which are on track to deliver $640 million of savings in 2019 and to deliver our guidance of 100 basis

points to 150 basis points improvement in adjusted operating margin for the full-year. And planning has already begun for 2020 programs that will continue the focus on delivering growth.

For the quarter, our operating results, coupled with the growth in equity income and lower shares, drove our strong earnings. We do not expect equity income will be as favorable year-over-year in the second half compared to the first half due to accounting adjustment charges at Fuji Xerox in Q1 2018. We are pleased with the trend in profitability and earnings, which we expect will continue as we see continued flow-through from Project Own It and benefits from the investments we are making on the top-line.

Last, I'll review our capital structure. We ended the second quarter at $4.8 billion of debt, which is down approximately $400 million compared to year-end as we repaid a March bond maturity with cash, and we had $712 million of cash on the balance sheet at quarter-end.

We breakdown debt between financing and core by first calculating the financing debt by applying a 7:1 leverage to our financing assets, financing receivables, and equipment on operating leases with the remaining debt assumed to be in support of our core business. In Q2, this calculation resulted in assumed financing debt of $3.3 billion and core debt of $1.5 billion.

Our core net debt was approximately $700 million as of the end of Q2, which was consistent with our 2018 ending core net debt. Our core leverage at the end of the quarter was less than 2 times annual free cash flow and thus we do not see any immediate requirement to reduce our core net debt levels. As the debt ladder reflects, we have a December bond maturity of approximately $600 million. We have access to capital sources as well as sufficient liquidity to handle upcoming debt maturities.

Another important element of our capital structure is our pension assets and liabilities. As of December 31, 2018, our net unfunded position was $1.2 billion, which compared to $1.4 billion as of the end of 2017 and $2.2 billion as of the end of 2016, and it includes approximately $775 million of unfunded pension liabilities which by design do not get funded.

From a funding perspective, we continue to expect contributions of approximately $140 million in 2019 and believe we are well-positioned to have a stable level of pension contributions over time.

Last, I just wanted to briefly talk to our leasing business. This is a good business. Xerox has financed customers for decades, but as a part of our transformational programs, we are evaluating every part of the business to ensure we are maximizing value for our shareholders. At this time, we are still evaluating options for our customer leasing business and it is premature for us to provide any specifics or speculate on how it will impact our balance sheet. We remain committed to maintaining a strong balance sheet, which is important to our business.

I will now hand it back to John to summarize before we move to Q&A.

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

Thanks, Bill. In summary, we see strong signs that our long-term strategy is gaining traction and that the hard work of many people across our company is paying off. Xerox is getting stronger and more focused on developing and delivering the technology that businesses large and small will need for years to come.

We will now open the line for questions. Ann?

Ann Pettrone, Vice President-Investor Relations, Xerox Corp.

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

Operator, please open the line for questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question will come from the line of Shannon Cross with Cross Research. Your line is now open.

<Q – Shannon Cross – Cross Research LLC>: Thank you very much. So, I guess, I just want to understand a bit more about what's going on on the top-line, what you saw toward the end of the quarter, how quickly using some of the incremental investments you're making will start to run through the model. I guess, because at some point obviously you can't sort of offset the top-line declines with all the cost cuts. So, when we look out a year or two, do you still feel comfortable with what you laid out at the Analyst Day? I don't know, John, if you can just sort of talk to your thoughts on top-line.

<A – John Visentin – Xerox Corp.>: Yeah. Hi, Shannon. We're still focused on the trajectory that we laid out in February. And if you think of the revenue side, we're doing a lot of things, whether it's expansion in channels. I talked about what we're doing with American Express, even with HP, both on the DocuShare side, some of the large accounts we've done. We're building a more e-commerce capabilities. We're hiring software sales specialists, some of it's tactical. We're expanding on our ITS services. And these investments, while we're putting them in a place now, some of these will take time, like we had discussed back in February, but it will provide top-line benefits near the end of 2019, but also we're expecting the returns to come in 2020 and 2021 on these.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Just to add on, Shannon. The investments John mentioned, we will see in certain of those some impact in the second half, but a lot more in 2020 and beyond. But some other things specifically related to the second half, we brought it up on the call, can't emphasize enough, the rate of improvement we saw later in the quarter in particular at XBS and the rate of decline, and the lessening of the impact of just all the transition that we've gone through in the company in connection with Project Own It. So, that is key and we saw that improvement coming later in the quarter, in particular in June, and we expect that to continue. That gives us confidence in improvement in the second half.

There were some certain large deals that were delayed in EMEA that we expect to close in the second half to have a favorable impact, and then we expect the continued strong demand for Iridesse and the just launched Baltoro to help.

And then, finally, the OEM business, I know we've talked about it for a lot of quarters, but it is lessening the impact. In the first quarter – or the first half, it was about 0.8% and we expect that to be closer to about 0.5 points.

So, there are various things that give us the confidence in the improvement in the second half revenue trajectory and it's as well as the investments that we're making in the revenues area starting to have some impact in the second half.

<Q – Shannon Cross – Cross Research LLC>: Okay. So, all of that is – you started to see as the quarter has – it's July 30. So through the first month of the quarter, you're feeling comfortable?

<A – Bill Osbourn – Xerox Corp.>: Yes.

<Q – Shannon Cross – Cross Research LLC>: Okay. And then, just curious, John, you had mentioned in the talk I think initially on leasing to make better use of the balance sheet. So, I'm curious as to what you mean by that. I understand you're not going to talk a lot about the leasing business because you're still analyzing what to do there, but what kind of use are you thinking about? And obviously acquisition – sorry, share repurchase and dividends have been a big focus, how are you thinking going forward? Thank you.

<A – John Visentin – Xerox Corp.>: Yeah. So, Shannon, you know we're not going to comment publicly on it. But what I would say is, we're focused on also on M&A pipeline that's going to support our strategic initiatives. And we've done a few tuck-ins. We've also done the acquisition of Vader on a 3D metal print. And in each case, we're going to – we're just going to take a disciplined approach that will drive the highest IRR.

That said, again, we're not going to comment on X-ray. We cannot provide details on what that would look like because we haven't set a deadline for making a final determination. It's an important decision and we're taking a methodological approach that's focused on doing the appropriate amount of due diligence on it, so.

<Q – Shannon Cross – Cross Research LLC>: Yeah.

<A – John Visentin – Xerox Corp.>: And...

<A – Bill Osbourn – Xerox Corp.>: And just to reiterate, I mean, it is premature that may or may not be a leasing transaction. Use of proceeds was the key question. If there were to be one, that would be addressed appropriately. But we are committed, as we said in our prepared remarks, to maintaining a strong balance sheet for the company. It's important for us and our growth plans from a top-line perspective.

<Q – Shannon Cross – Cross Research LLC>: Great. Thank you very much.

<A – Ann Pettrone – Xerox Corp.>: Thanks, Shannon.

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

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Yeah, thank you. Just on the partnership you announced with HP in the quarter, wondering if you could talk a little bit more about how the agreement came to bead, just what you see is the biggest benefit, and just how we should think about the ramp of the relationship from here?

<A – John Visentin – Xerox Corp.>: Yeah, I would – look, this is a multifaceted arrangement, and it's truly again – and it helps us unlock growth opportunities. So, if you think of what we're doing, we're diversifying our supply chain. We'll source the A4 and entry A3 products from HP. We're adding volume to our toner operations which we have. We're broadening our IT portfolio because we'll become a DaaS specialist in HP's Partner First Program. And we're expanding our software presence where they will make DocuShare Flex, our cloud-enabled content available for other SMB PCs. So, we're looking at this as a new channel of opportunity for revenue, while diversifying our supply chain. I wouldn't read in – I wouldn't read more than that into it. It's really just – it's a partnership that made sense for us and made sense for HP.

<Q – Matt Cabral – Credit Suisse Securities (USA) LLC>: Got it. And then, on free cash flow, so you're up about $100 million through the first half of the year versus last year. I think even at the high-end, though, you're still guiding for less than that on a full-year basis. Just wondering, if you could help us think through the cadence of cash flow in the second half, and just why we shouldn't expect the pace of year-over-year improvement to continue?

<A – Bill Osbourn – Xerox Corp.>: Yeah, Matt. Hey, it's Bill. So, as you're well aware that our strongest cash flow quarter of the year is the fourth quarter. So, we are expecting the strongest cash flow in that quarter. And with that said, when you're comparing, we're similar in line to last year in cash flows that we guided to, the $1 billion to $1.1 billion this year, similar to the approximate $1.1 billion last year. The second half of last year did have some unusual cash flows that came back in related to the Fuji Xerox transaction. So, you don't have – it makes it a little bit tougher compare year-over-year. But we're also – it goes back to the investments we're talking about making in the company. And we want to do it right, and – but those investments not only cause in EPS hit that we talked about, the $0.32 being up to approximately $0.40, but it also – there's cash associated with those investments. And, overall, as we said, we're comfortable with reiterating our guidance and giving the CapEx rate of spend being towards the higher end of the range.

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

<A – Ann Pettrone – Xerox Corp.>: Thanks, Matt.

Operator: Thank you. Our next question will come from the line of Ananda Baruah with Loop Capital. Your line is now open.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Hi, good morning to you, guys. Hey, appreciate all the detail on the transaction, it's actually really helpful, so appreciate that. A few, if I could. Just starting out with just kind of the EPS, I just want to understand – make sure that I understand the mechanics. So, the $0.08 of incremental investment into sales initiative, is this the straightforward of saying that $0.08 that comes out of whatever EPS would have been? And so, is that the right way to think about it?

And then, I have a couple questions on just how to think about the second half of the year as well. Typically, historically, let's say, September quarter has been a little bit softer from an EPS perspective, but the last couple years, we've actually seen – relative to June. The last couple years, though, we've actually seen an improvement Q-over-Q in EPS. So, how would you like us to think about September this year, meaning this quarter, number one, in light of sort of the dynamics the last couple years, and then also in light of the $0.08 that you're incrementally spending? And I have a couple follow-ups. Thanks.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Ananda, it's Bill. So, yeah, we are very pleased with clearly the Q2 and the year-to-date adjusted EPS performance, especially on a year-over-year basis. With that said, we're holding our guidance at $3.80 to $3.95 in spite of – we don't give specific quarterly guidance on adjusted EPS. We know there is consensus numbers out there and this compares favorably to that. But the thing is, is that, and the reason why we haven't upped the full-year guidance is specifically for what you mentioned to a certain extent that we do plan on reinvesting some of these savings that we've been able to achieve from Project Own It and the overachievement in EPS in the first half we plan on investing those smartly, we'll do it in a smart way in various revenue-generating investments in the second half. And Q3, Q4, typically Q4 is the strongest quarter of the year, as you're familiar with, but we don't really give quarter-to-quarter EPS guidance, but full-year we're still very comfortable with our range of $3.80 to $3.95.

<Q – Ananda Baruah – Loop Capital Markets LLC>: And I just wouldn't want people to – I mean, to be honest, I'll have to take this offline [indiscernible] (40:17) myself. But I feel like right now we could all be – September quarter, there could be like a $0.10 range that people could say that's $0.05 down from the $0.99 to $0.05 up, and I just wouldn't want consensus. Whatever, I mean, I think whatever it should be, we'd like to get some visibility to it, like I see it, intellectually, people could say that anywhere in that range I think...

<A – Bill Osbourn – Xerox Corp.>: Well, I mean, other factors we've mentioned, people can go through and calculate what the impact of the share repurchases are on our EPS before we said the incremental share repurchase $300 million is weighted towards the latter part of the year, so won't have much of an impact on this year nor Q3. And you start also lapping the share repurchases that started in the second half of last year.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Okay. And let me just ask a quick follow-up here, on your leasing business context. Guys, to what extent are you also taking into consideration what the impact to – of simplifying the story is. And so, what the multiple kind of stock could be if you were to do something? I just love to get your view on that. And then, to the extent you are considering those types of things, how are you going about actually sort of gathering the information that you use in your considerations? And that's it for me. Thanks.

<A – Bill Osbourn – Xerox Corp.>: Yeah. I think we said, we're considering optionality with the leasing business. There's nothing definitive, but there are a couple of factors at least. One is simplifying our business. This is a core area we need to be and operate, and it has been a good area. And we may still continue staying in this business, but this is something that we have to have as a document technology company, clearly many of our peers do not do this in-house, so that's something we're looking at. But the other thing you bring up is that, we do believe that the debt associated with this said often from an investment thesis perspective will get screened out because of that debt related to the leasing business and that is a consideration and whether we would do a leasing transaction or not.

<Q – Ananda Baruah – Loop Capital Markets LLC>: Got it. Okay. Okay, great. Thanks a lot.

<A – Ann Pettrone – Xerox Corp.>: Thanks, Ananda.

Operator: Thank you. Our next question will come from the line of Jim Suva with Citigroup. Your line is now open.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Thank you very much, John and Bill. The question I had was regarding the incremental investment that you're doing. It sounds like it's going into your sales force, your sales channel, your go-to-market strategy, something like that. Can you help us understand like maybe some specifics on where this incremental investment is going? Because we had a very good graph on the earnings and the cost synergies and reducing costs, but the story of Xerox being revenue challenged has been a persistent theme under several management tenure. So, can you help us understand what specifically some of these actions are so we can have a little more confidence and conviction of your ability to improve the sales trajectory? Thank you.

<A – John Visentin – Xerox Corp.>: Yeah. So, Jim – good morning, Jim. I would say that, first of all, it's the investments we're making in different aspects. So, if you think of what we announced, whether it's with American Express or HP, our focus on new types of channels to get to our clients, those are all investments we're making now that will bring benefit in the future. And some of these that we're talking about we're not expecting a lot of revenue in 2019, but helps us with the growth. So, it's really part of our driving revenue that we talked about even back in February.

We're improving in our core technology business. Our offerings, you've heard some of them that we just came out with and more to come. Our direct sales coverage, yes, we're adding specialists not only in the sales force, but we're also adding specialists that could help us continue to grow some of our areas in software and services. We talk about our channels. SMB is a big play for us, not only in the U.S., but also in Europe and in other areas. We're looking at innovation and new business in M&A.

In the innovation pipeline, we're starting to move the innovation pipeline that we've talked about and we gave an example of one of the first ones we're looking at which are the sensor electronics and we're seeing how and what are the business cases to possibly get this to commercialize now that we've had it implemented in a few pilot clients, if you'd like, or in a few for our clients and how do we go about bringing that in.

All of that takes now investments to assure that in the future we can go get the revenue trajectory. That said, that's why we're confident in keeping – maintaining our guidance, but at the same time we thought it'd just be prudent to bring revenue guidance down. It's not easy, it's not short-term, it's not going to happen in a quarter, but we want to see improvements in all these areas as we move forward.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Just going in a little bit more detail. I mean, some of the investments, I mean, we are hiring individuals in the software sales area, specialists to help us grow our software sales revenue. Our expanding our IT Services offerings, we had a few cores within our XBS operations that we're already selling this. We're going to be expanding it over the second half of the year to over a third of our – or approximately a third of our XBS operations as costs in getting people trained and hiring people on to offer those services. So, there are real costs being incurred as we ramp up.

And another area specifically that we've actually built up in the first half and [ph] pay focus (46.35) on is the transactional supplies area. We have a transactional supplies group focusing on getting better attachment rates on the unbundled contracts, and we've invested in personnel in that area also.

<Q – Jim Suva – Citigroup Global Markets, Inc.>: Great. Thanks so much for the details. That's greatly appreciated.

<A – Ann Pettrone – Xerox Corp.>: Great. Thanks, Jim.

Operator: Thank you. Our next question will come from the line of Paul Coster with JPMorgan. Your line is now open.

<Q – Paul Chung – JPMorgan Securities LLC>: Hi. Thanks. This is Paul Chung on for Coster. Thanks for taking our questions. So, first up, just on mid-range declines, can you give us a sense of what you think demand and sales would have been excluding some of the impacts from some of the sales transition and org changes? I know you had a tough comp there, but how's your market share held up and just your sense of overall industry health there on the mid-range would be helpful.

<A – Bill Osbourn – Xerox Corp.>: Yeah. Hey, Paul. It's Bill. The largest impact on mid-range really came from we talked about the XBS area year-over-year and they did have a strong Q2 last year, so it was a tough compare. With that said, it's hard to say what it would have been exactly without versus the installs being down 12%, but certainly, I think without any impacts, we would have expected it to be more in the mid-single digits down at worse. But we clearly saw improvement in XBS in June. We expect that to continue and they are one of the key drivers in mid-range. You also have some of the deals over in Europe that were delayed that we expect to close into the second half that will also help improve the mid-range area.

<Q – Paul Chung – JPMorgan Securities LLC>: Got you. And then, just a follow-up on the post sales revenue. Given your equipment sales declines kind of accelerated in the first half, which is obviously impacting your overall install base, but what are the levers you can kind of pull to stem some of the pressure on post sales? And then, any update on some of those growth initiatives you presented at Analyst Day, anything becoming more material? Thank you.

<A – Bill Osbourn – Xerox Corp.>: Yeah. From a post sale perspective in the causals of what happened in the second quarter, I think of it really in two parts. First of all, there is the transactional part of post sales, the unbundled supplies, paper, some of the IT Services sales. And we did see weaker revenues in the transactional side, if you take a look at the indirect sales channels in the U.S. and EMEA and in certain of developing markets where we saw a slowdown due to economic uncertainties.

In the contractual side, the service, rental, other, outsourcing, a lot of it is dependent on page volume, clicks, et cetera, we saw a similar rate of decline to Q1, which was above the 2018 pace, but it still was similar to Q1. And there are several factors which we've discussed in the past that contributed to this, whether it's lower machines in field, higher mix of lower usage products, lower enterprise signings in recent quarters, and we're attacking this specifically as a part of our strategy, but we know this area isn't something that turns around quickly, but it is an area that we're attacking.

And specifically, when you're looking at post sale and we believe it can do better in the second half than the first half. I talk about earlier the investments we made in the supplies area. We have a specific group that's looking – that is working to get higher attach rates on the unbundled contracts and there are certain things in the post sale, there is IT Services contracts that we can look to that are happening in Q3 and into Q4 that give us confidence in an improvement in the rate of decline in the second half versus the first half.

<A – Ann Pettrone – Xerox Corp.>: Okay, great. I think we have time for one last question.

Operator: Yes, ma'am. Our last question will come from the line of Katy Huberty with Morgan Stanley. Your line is now open.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: Yes. Thank you. What did you bake into the second half outlook as it relates to the weakening macro data points? It sounds like there were some sales cycle delays in 2Q that clearly could continue into the back half, so that you are able to close the deals that delayed, there could be continued delays in 3Q and 4Q. So, just wondering, does your outlook bake that in or do you need a stable macro demand environment to hit that second half outlook?

<A – Bill Osbourn – Xerox Corp.>: Yeah. Hey, Katy. It's Bill. I'd say, there's two main things. One thing, and probably the largest thing that gives us the confidence in the second half is the trend at XBS that we saw in the latter part of Q2, and just what XBS has been able to achieve historically. We know the changes that we made from Project Own It respective are good for the company for the long-term, but still adjusting to those changes in the short-term had some impact and we're confident that XBS can get back to levels of recent quarters prior to the first two quarters of this year.

As far as the delayed deals, there is some, we are expecting some of those to close in the second half. It will have some favorable impact, I would say, the bigger impact is really coming from the better responsiveness to the organizational impacts of Project Own It on the XBS side.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: And as you look into 2020, the $450 million of incremental savings that you've earmarked, where do those savings come from relative to the $640 million in 2019?

<A – John Visentin – Xerox Corp.>: Yeah. Katy, it's a little bit – we showed some of it in – when we did the February Analyst Day. But if you think about it, we have more work we can do on the supply chain side. On our infrastructure, we're investing not only in robot, we're investing in cloud-enabled solutions. So, there's a lot of the back-office, if you'd like, that we had more investments to do that take time, some of these take time. So, the – and then, there's always optimization that we continue to do. So, it's still in the same areas.

<Q – Katy Huberty – Morgan Stanley & Co. LLC>: Great. Thank you.

Ann Pettrone, Vice President-Investor Relations, Xerox Corp.

Great. Thank you, Katy. That's all the time we have for questions today. And we really appreciate the interest of everyone who has participated. John, anything to wrap up?

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

Yes. I just want to say thank you to everybody. Or transformation continues to drive improvements in EPS, operating margin, and free cash flow. The investments we're making in our business is setting us to improve our revenue trajectory, which gives us confidence in our ability to return Xerox to growth over the long-term. Thank you, again, for joining us today.

Operator: Ladies and gentlemen, thank you for your participation on today's conference. This does conclude our program and we may all disconnect. Everybody, have a wonderful day.