

Third Quarter 2013 Earnings Presentation

Non-GAAP Financial Measures

October 24, 2013



Non-GAAP Financial Measures

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

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

In 2013 and 2012 we adjusted for the amortization of intangible assets. The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

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

“Pro-forma Basis”: To better understand the trends in our business, we discuss our 2011 revenue growth by comparing revenue in that year against an adjusted prior period revenue amount which includes ACS historical revenue for the comparable periods. We acquired ACS on February 5, 2010 and ACS’s results subsequent that date are included in our reported results. Accordingly, for comparison of our 2011 revenues to 2010, we added ACS’s 2010 estimated revenues for the period January 1 through February 5, 2010 to our reported 2010 results (pro-forma 2010). We refer to the comparison against this adjusted 2010 revenue amount as “pro-forma” based comparisons. We believe the pro-forma comparisons provide investors with a better understanding and additional perspective of the expected post-acquisition revenue trends as well as the impact of the ACS acquisition.

Non-GAAP Financial Measures

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

“Free Cash Flow”: To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It also is used to measure our yield on market capitalization.

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

A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following slides.

Q3 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	Net Income	EPS	Net Income	EPS
Reported⁽¹⁾	\$ 288	\$ 0.22	\$ 280	\$ 0.21
<u>Adjustments:</u>				
Amortization of intangible assets	52	0.04	51	0.04
Adjusted	\$ 340	\$ 0.26	\$ 331	\$ 0.25
Weighted average shares for adjusted EPS ⁽²⁾		1,286		1,346
Fully diluted shares at end of period ⁽³⁾		1,280		

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

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend was excluded.

(3) Represents common shares outstanding at September 30, 2013 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the third quarter 2013.

GAAP EPS to Adjusted EPS Guidance Track

2013 EPS Guidance

	Earnings Per Share Guidance	
	Q4 2013	FY 2013
GAAP EPS from Continuing Operations	\$0.24 - \$0.26	\$0.93 - \$0.95
<u>Adjustments:</u>		
Amortization of intangible assets	0.04	0.15
Adjusted EPS	<u>\$0.28 - \$0.30</u>	<u>\$1.08 - \$1.10</u>

Note: GAAP and Adjusted EPS guidance includes anticipated restructuring

Q3 Adjusted Operating Income/Margin

(in millions)	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported pre-tax income⁽¹⁾	\$ 335	\$ 5,262	6.4%	\$ 314	\$ 5,275	6.0%
<u>Adjustments:</u>						
Amortization of intangible assets	83			82		
Xerox restructuring charge	35			14		
Other expenses, net	39			58		
Adjusted Operating	\$ 492	\$ 5,262	9.4%	\$ 468	\$ 5,275	8.9%
Equity in net income of unconsolidated affiliates	43			34		
Fuji Xerox restructuring charge	3			5		
Other expenses, net*	(40)			(59)		
Segment Profit/Revenue	\$ 498	\$ 5,262	9.5%	\$ 448	\$ 5,275	8.5%

* Includes rounding adjustments.

(1) Profit and Revenue from continuing operations attributable to Xerox.

Q3 Adjusted Other, net

(in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Other expenses, net - Reported	\$ 39	\$ 58
<u>Adjustments:</u>		
Xerox restructuring charge	35	14
Net income attributable to noncontrolling interests	5	6
Other expenses, net - Adjusted	<u>\$ 79</u>	<u>\$ 78</u>

Q3 Adjusted Effective Tax Rate

(in millions)	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported⁽¹⁾	\$ 335	\$ 85	25.4%	\$ 314	\$ 62	19.7%
<u>Adjustments:</u>						
Amortization of intangible assets	83	31		82	31	
Adjusted	<u>\$ 418</u>	<u>\$ 116</u>	<u>27.8%</u>	<u>\$ 396</u>	<u>\$ 93</u>	<u>23.5%</u>

(1) Pre-Tax Income and Income Tax Expense from continuing operations attributable to Xerox.

Q3 and Sep YTD Free Cash Flow

(in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Cash Flow from Operations	\$ 961	\$ 594
Additions to land, buildings and equipment	(84)	(110)
Additions to internal use software	(18)	(30)
Free Cash Flow	\$ 859	\$ 454

(in millions)	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash Flow from Operations	\$ 1,407	\$ 807
Additions to land, buildings and equipment	(253)	(283)
Additions to internal use software	(63)	(100)
Free Cash Flow	\$ 1,091	\$ 424

Q3 Services Revenue Breakdown

Services Segment: (in millions)	Three Months Ended September 30,		Change
	2013	2012	
Business Processing Outsourcing	\$ 1,766	\$ 1,743	1%
Document Outsourcing	828	788	5%
Information Technology Outsourcing	391	361	8%
Less: Intra-Segment Eliminations	(41)	(45)	(9%)
Total Revenue - Services	\$ 2,944	\$ 2,847	3%

Note:

- Starting in 2013 the Communication & Marketing Services (CMS) business was transferred from Document Outsourcing (DO) to Business Process Outsourcing (BPO). As a result 2012 BPO and DO revenues have been restated, the restatement amounts by quarter are \$108M for Q1, \$114M for Q2, \$109M for Q3 and \$119M for Q4.

