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EDITED TRANSCRIPT

XRX - Xerox Corporation at Goldman Sachs Technology & Internet Conference

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Jim Lesko *Xerox Corporation - VP IR*

PRESENTATION

Bill Shope - *Goldman Sachs - Analyst*

Thank you all for joining us this afternoon. I'm Bill Shope. I cover hardware for Goldman Sachs. Today we're very happy to have Xerox with us. And in particularly, we have Lynn Blodgett, who runs Services for Xerox, which, obviously, has been a keen focus for investors. So we're really -- really appreciate your time.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Thank you.

Bill Shope - *Goldman Sachs - Analyst*

We also have Jim Lesko. I'm sure most of you all know from IR. Jim, I think you have to read a --

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Jim Lesko - *Xerox Corporation - VP IR*

Thanks, Bill, yes.

Bill Shope - *Goldman Sachs - Analyst*

-- Safe Harbor.

Jim Lesko - *Xerox Corporation - VP IR*

During this meeting, 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 10K and in subsequent quarterly reports on form 10Q, 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. Thanks.

Bill Shope - *Goldman Sachs - Analyst*

All right. Thank you, Jim. So, Lynn, just to start off, bigger picture here, a lot of the Xerox Service's story is synonymous with ACS. So could you talk about, big picture again, where we've come since the acquisition relative to the initial goals from Xerox and where you see it going going forward?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes. We had three main reasons that we thought the acquisition made sense. One was the global presence of Xerox, and that certainly has proven to be true. European growth, because of the economy in Europe's been probably a little slower than we had hoped, but we certainly have made good progress there and other places around the globe.

The second was the value of Xerox technology and Park. That's my generic term for all of the great research people we have. But that has been a real positive. My only desire there is that we use it more, because wherever -- whenever we've engaged that research capability, it's really been a great benefit for us.

So the brand, the research, and then the global reach, the fact that there are relations -- that Xerox had relationships with companies all around the world. That's really proven to be true. And you can see from our internal growth rate, it's accelerated since being part of Xerox. So that part's worked well. The technology, it's actually been kind of interesting to me that it's been -- that the basic premise for the acquisition has really proven out to be true.

I think there are things that if we could wave a magic wand, they would have happened quicker. But the basic ideas behind it is all -- have all held true.

Bill Shope - *Goldman Sachs - Analyst*

Can you walk us through the overall services division, the three key segments, how investors should think about those? And also give us a bit of an idea for those that are newer to the story what's heritage ACS, what's heritage Xerox?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

You bet, yes. The Services business is broken down into three major areas. One is business process outsourcing, BPO. The other is ITO, the information technology that's been around for a long, long time. And then the third is the document outsourcing space. BPO and ITO are things [like] legacy ACS, although Xerox had pieces of litigation, mortgage support. But BPO is primarily an ACS legacy deal.

And then ITO also, document outsourcing, although ACS did some document outsourcing, the majority of that came from the Xerox side of the house. And at this point, they -- ITO is, we had really strong growth last quarter in ITO. BPO has consistently grown in the mid- to high single digit. Sometimes we'll crack the double digits.

And then document outsourcing tends to grow a little bit slower. But all-in-all, the overall mix, we're about, I think 7% last year combined.

Bill Shope - *Goldman Sachs - Analyst*

Now, it's been a key growth driver for Xerox, and I think most of us assume it will be going forward. Can you talk about how you think about the, you had mentioned ITO being a strong grower last quarter. Can you talk about how you think about the target growth rates for each of the three key segments longer term?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Sure. Yes. I think that ITO, we would -- this growth that we're seeing right now is being driven -- we had really remarkable bookings, a couple of, you know, third, fourth quarter two years ago, and so that's where -- what you're seeing now is the ramp-up effect of those really strong bookings.

We don't think you should plan on double-digit growth from IT. ITO is a normal -- we would expect that to be in the mid- to high single digits.

BPO typically will probably grow a little bit faster. You know, if you think of the, kind of the BPO's going to be on the higher range, ITO kind of be in the middle, and document outsourcing tends to be a little bit lower.

Bill Shope - *Goldman Sachs - Analyst*

And when we look at the ITO segment, I mean, how are we thinking about what type of, I mean how we connect that to services signings? You said you had this big boost. I mean, are we going to sort of steadily come off from here or do we have a few more quarters of very -- healthy growth, double-digit growth?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes, we expect that you're going to see -- you'll continue to see the strong growth, certainly double-digit growth over the next couple quarters. And then you can just do the math and look, you can see where bookings weren't quite as -- [it isn't to] say we didn't have good bookings, it's that we had remarkable bookings. We booked almost $2 billion dollars on a business that's a billion, less than a billion and a half. So we had really, really strong bookings. You're going to see that sort of tale down a little bit.

ITO -- excuse me. BPO will continue to grow about, I think about the same. It'll -- you'll see quarterly bumps of a point or two, but should be in those ranges.

Bill Shope - *Goldman Sachs - Analyst*

Now, when I look at BPO, can you walk us through, that's obviously, I think one of the strongest segments and certainly an area you have lots of experience with as well over your career. What are the key competitive advantages for Xerox in BPO? And how do we think about the drivers of market growth and where Xerox is going to tend to focus to capture their fair share?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Well, I think the overall competitive advantage that we have, because we're in so many different, BPO we have HR, human resources outsourcing, finance and accounting, government healthcare, private. So each one of those has different drivers.

But as an overall general statement, we have strong platforms. If you look at our Medicaid business, for example, we have a very, very strong legacy platform and we're just introducing our new Enterprise Platform that's going live here in a couple months. So the fact that we have very strong software platforms that we offer.

Secondly, we have very strong process control. We know how to manage transactions. We know how to compensate people to maximize our productivity. We have a very strong global production model. So we can do work here. We can do it in a low-cost area, depending on what's the right -- a state government you're going to do within that state typically. So we have a very strong global model.

And then, as I said, I think our method of compensation, our management processes, we tend to get higher productivity per, sort of per man hour, if you want to think of it that way.

Bill Shope - *Goldman Sachs - Analyst*

Can he dig into that a bit more, because that's the -- the compensation strategy in particular is very, very different at Xerox and at ACS prior to that. Could you help us understand exactly what the key differences are here and how that's --

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Lynn Blodgett - *Xerox Corporation - President Xerox Services*

You bet.

Bill Shope - *Goldman Sachs - Analyst*

-- difficult to replicate?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes. Our basic premise in terms of compensation, is that if you reward people for their productivity and for their quality, those two things, if you make sure that the incentives that people have are aligned with those, then you'll typically drive better performance. It's kind of like you, right? I mean, people figured out a long time ago for -- in sales, for example, it's always been a model, or in most cases, if you sell more, you earn more.

And what we've done is taken that same kind of concept and just applied it in a production environment. So if people actually do produce more, they earn more.

Bill Shope - *Goldman Sachs - Analyst*

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

And if their quality's better, they earn more. And that's really what people hire us to do, right, is to produce their work in the highest possible quality and at the lowest possible cost.

So we have systems where people, we actually track how much work they do. We track what the quality of their work is and then compensate them accordingly. And it's philosophically difficult to do because it's -- that requires a lot of discipline --

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Bill Shope - *Goldman Sachs - Analyst*

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

-- and a lot of oversight. And then from a process standpoint, you have to have payroll systems that can accommodate it and so on. So it's not easy to replicate.

Bill Shope - *Goldman Sachs - Analyst*

Sure. Digging into specific vertical opportunities, the healthcare opportunity's something that we're starting to hear a lot more about. I wanted to see if you could touch on how that's evolving, particularly with all the legislation that's gone on in the US, and where you think Xerox has an opportunity there.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Well, we are a very large player in Medicaid, as you know. And so as the roles in Medicaid expand, which they're going to do, then that represents a good opportunity for us. They are different numbers that you hear out there, but it's certainly tens of millions of additional insured people that will come on those roles. So that represents an opportunity.

Just winning additional states is an opportunity. And then within the individual states there are insurance exchanges that have to be set up. We have, I think six or seven states that we're doing that for right now. So we'll continue to bid and win our fair share of those.

The whole idea of the electronic health record and then sort of outcomes-based, healthcare, managed care versus fee-for-service where the providers are paid a certain amount to take care of a person rather than a certain amount to do a procedure. That's quite a different model, right. And we think we have data. We have claims data that's kind of second-to-none. And so we are able to -- and we're working on clinical data that will help us to be able to have providers -- help providers as they work on the outcome of a process rather than the process itself. I don't know if that makes sense to you, but.

Bill Shope - *Goldman Sachs - Analyst*

No, that make sense. That makes sense. When you go into some of these recent deals you've won particularly on the exchanges and whatnot, what typically would you say is the reason you're winning?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

I think we win because we have great technology. People look at our platforms, and they realize that this stuff's pretty complicated. Our Medicaid platform has 6 million lines of code. And there hasn't been a new Medicaid system that's been developed for a long time, I mean over a decade.

And so now, as we demonstrate that to people, they're experts, they look at it and they say, wow, that has functionality and features that are unique. So one is the technology. The second is we have, I think we have a very good service orientation and that people know that. They do reference checking. If you look at our renewal rates, our renewal rates are among the highest in the industry. Well, that becomes because we execute well and we try to be customer centric.

And then third, our pricing. We have a good balance. I mean, we have, as I say, a global model where if we need to bring an inexpensive resource to bear on an issue, we have that. And we have 40,000 people that operate in low-cost labor areas. We have 60,000 that are in higher-cost labor areas. So we can, if somebody needs something done in San Francisco, we can do it. If they need them done in a very low-cost area, we can do it.

And we have a workflow and processes that allow us to do that. So I think it's price. I think it's service, orientation. I think it's technology.

Bill Shope - *Goldman Sachs - Analyst*

When we look at healthcare, your overall exposure, percentage of revenues, percentages of services, can you ballpark that for us --

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Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Sure.

Bill Shope - *Goldman Sachs - Analyst*

-- just so we know how important this is?

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Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes. Our overall a healthcare is about $2 billion, and have an $11 billion, $12 billion-dollar portfolio. So it's very important.

And I think growth, that you're going to see a disproportionate amount of growth coming out of healthcare, and it's an obvious thing. Right? It's growing as a part of our overall economy.

And then the role of people like us who can actually provide data analytics to help predict outcomes and to help reduce administrative costs, it's just kind of a natural set.

Bill Shope - *Goldman Sachs - Analyst*

You also have quite a bit of exposure to government, which has been, obviously a key driver of your business for many years. But that's also been somewhat of a sensitivity for investors --

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Sure.

Bill Shope - *Goldman Sachs - Analyst*

-- a concern. Can you talk about some of the buffers you have there to slowing spending, particularly in state and local and federal, and just sort of refresh us on the exposure and how investors should think about that?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

You bet. Yes. In the federal space, I mean, obviously, there's a lot of dialogue about all the things that are going on in the federal space in the United States. Our exposure to overall federal is about 4%, something like that. So it's not -- I mean, we want the federal government to be healthy and thriving and so on, but we don't have a huge exposure there.

I think our overall government exposure is about 25%, something like that, 25%. And a couple of -- we have felt pressure from the fact that budgets have been extremely tight - there's no question about that. But the things that have made it less dramatic to us is that we don't do a lot of discretionary project work. If somebody's going to put in a -- we talk about our new Medicaid platform. But when people put that in, it's in connection with a large services contract. In other words, they're not doing it to put in a new -- they don't contract with us just to put in a system typically. They contract -- sometimes that happens. But most of the time it's so that we're going to provide them with a service over multiple years.

Discretionary projects where people just want to upgrade their system or they want to add a new feature or whatever, that kind of work has really been under pressure. And we've said that ourselves, that most of our work comes from either federally mandated projects like Medicaid or Social Security where the federal government is paying for that and it's all kind of -- there are lots of rules that govern the reimbursement rates and all that, or it's where we're helping the municipality or state to make money. We run the toll roads in New Jersey Turnpike, the E-ZPass, New York E-ZPass, New Jersey E-ZPass is our deal, and that is a revenue-producing thing for those entities. And so we're not going to -- that's not going to go away, because we're helping them solving their budget problems not contributing to it.

Or we do parking or we do speed cameras or things that actually help the --

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Bill Shope - *Goldman Sachs - Analyst*

They don't want to give up [and to] --

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

They don't want to give it up, yes.

Bill Shope - *Goldman Sachs - Analyst*

How about if we can shift back to the overall business (inaudible) services, the margin structure. You had a really solid quarter last quarter on margins. The quarter before, it was disappointing.

So how do we think about, first of all, over the past two quarters and overall services margin volatility and how you manage that?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes, we had a -- the third quarter was disappointing. It was disappointing to us and we know to the Street. We had a unique situation where the only time in our history for, I mean over a decade, we had a contract actually defunded, which is the only time it's happened. We don't have any other indications of anything like that. And it wasn't a huge contract, but on the margin, it had an impact on it.

Overall we've said our margin range should be 10 to 12. We're at the low end of that. We think this year we'll finish in the 10s, but it'll be towards the lower end of the 10. We have, I said in our investor conference, that we have -- we don't have a revenue issue, we have a cost issue. And what I mean by that is that it's actually a good opportunity, over 80% of our cost is of our labor, which is our largest cost within high-cost areas.

Think about the people we're competing against. Even some of the big US names have a higher concentration of cost outside the United States or outside the high-cost area. So that means we have opportunity to reduce our costs by migrating more that direction. Even though we have 40,000 people, we have 60,000 that are not.

And so from our point of view, the key to margin stability is to push that envelope a little bit further. We have sort of been a little bit flat. We haven't declined in our percentage, but we haven't increased. So we need to do that. And you saw some of the restructuring that we did in the fourth quarter.

Bill Shope - *Goldman Sachs - Analyst*

Yes.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

That had an impact. We, because we're focused on the cost, we had some extraordinary startup. State of California was a very expensive startup for us, and that had an impact on margins. We broke even in the fourth quarter. You can see the margins that benefited from that positively.

Bill Shope - *Goldman Sachs - Analyst*

Yes.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

We're comfortable that you'll see a steady expansion in margin. We're saying don't count on us breaking into the 11% range this year. You [should] count on us, you'll see incremental improvement and we'll be in the lower end of the range. But we think by managing our cost properly we can sort of keep that march going, and kind of slow and steady wins the race.

Bill Shope - *Goldman Sachs - Analyst*

Now, on the labor side of the equation, what are some of the gating factors there? Because I know that in areas of BPO it's different from traditional IT outsourcing where you do need some local presence.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes.

Bill Shope - *Goldman Sachs - Analyst*

So how do you think about those gating factors and how quickly can you reduce cost in that respect?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes. I mean, you're exactly right, that the movement of the work to a low-cost area requires a customer -- a customer's approval. In the case of government, typically we're not going to move work, nor do we really want to move work. But the gating factor, we only have more to do with the customer approval, the technical feasibility of it, and now almost everything can be moved almost anywhere.

We have a lot of our internal costs still that are in high-cost areas, and that's not governed by anybody except us. And so we're focused on moving as much of that as we can.

Bill Shope - *Goldman Sachs - Analyst*

Okay. Shifting over to services signings, I think there was some confusion or a lot of focus on that on the last earnings call as to how to correlate your signings decline with your expectation for fairly healthy revenue growth. And with many services companies, that disconnects wouldn't be as obvious.

So can you talk about when we look at Xerox's Services Business why we need to be careful in trying to tie those two together and what forecasting power, if any, does your signings number actually have for [us]?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Those are very fair questions. Obviously, the more we can sign, the better. And we would -- last year, bookings were down slightly from the year before. We had a very strong '11, and it was primarily because IT was so strong.

The other thing, though, that made it look probably more drastic than it really was, was that we would -- we measure total contract value and annual recurring revenue. Annual recurring revenue is the amount of revenue that we're going to see from a contract in a given year once it's ramped up. So that's really the number that you have to look at to calculate growth is that annual recurring revenue.

We also report total contract value, which is essentially the backlog number. You take the annual recurring revenue, you multiply it by the number of years in the contract and, I used the example in the meetings this morning, we signed a contract with the city to manage their parking. This was two years ago. And it was, I think $5 million a year, but it was a 50-year contract.

And so the total contract value of that is going to be big, but the real impact on an annual basis is pretty small, you see. And so what happened last quarter is that bookings, we were not happy. We would hope bookings would have been a little higher than they were. But it was still, I think in our top five quarters of bookings. It looked a lot more drastic because the total contract value was lower because the contract length that we had signed were lower.

Bill Shope - *Goldman Sachs - Analyst*

Okay.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

So instead of signing a 50-year, 5 million-dollar-a-year deal, we did three customer care deals of $20 million each, but they were only three-year contracts.

Bill Shope - *Goldman Sachs - Analyst*

Okay.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

So the annual impact on it was not as drastic as the way it would look if you looked at the total contract.

Bill Shope - *Goldman Sachs - Analyst*

I see. That make sense.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

I feel like I'm speaking double talk here, but --

Bill Shope - *Goldman Sachs - Analyst*

No, no, no. And you had said on the call as well that your contract value overall was shrinking, right? I mean, not contract value. Contract length.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Contract length. Length. The other thing you have to look at, though, when you consider contract length, is the renewal rate, because even if the customer only contracts in three-year chunks, if we continue to renew 85% or 90% of them, our customer relationship is long. It doesn't mean just because we only sign a three-year term, we typically renew those. And so we have customers that the average contract length is three years and we've been doing work for them for 20 years because we keep renewing.

So we like having longer contracts. But typically a longer contract has a little more capital intensity to it --

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Bill Shope - *Goldman Sachs - Analyst*

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

-- because it's a bigger deal typically. And that's why it turns out to be longer, because to make the payback, you have to have a longer term. So shorter contracts are a little less price sensitive. It's not dramatic, but it's a little -- we're talking about 10 BIPS here, 10 BIPS there, right.

So contract length is important. We want to push for long contracts in most cases. But it's not -- that decline was a little exaggerated.

Bill Shope - *Goldman Sachs - Analyst*

Okay. I'm going to ask one more question then open it up to the audience. I'll let you think about questions while I do that.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Okay.

Bill Shope - *Goldman Sachs - Analyst*

I wanted to dig into that renewal rate question. How much visibility do you have or control, I should say, over your renewal rate? Because I know we did have an issue last year where the renewal rate dipped and sort of --

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Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Two years ago.

Bill Shope - *Goldman Sachs - Analyst*

Two years ago.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

In '12, we were up --

Bill Shope - *Goldman Sachs - Analyst*

Right. Okay.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

-- by 5%, but any way.

Bill Shope - *Goldman Sachs - Analyst*

So, yes, 2 years ago you had that one slip, but in general since then you've kept it within your targeted range. So how much control do you have over that and can you talk about --

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

We have a lot of control over the renewal, the ultimate renewal because that's driven by pricing. If we can be price competitive, if we deliver good service, those are the things that are -- that's going to -- and innovation, those are the things that are going to cause people to renew. So we have complete control of that.

Bill Shope - *Goldman Sachs - Analyst*

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

What we don't have control over is the timing, because especially if we -- because typically we don't wait for a contract to go to term, we're going early, a year before. If it's a five-year contract, in the beginning of the fourth year, we'll go to the customer and say, look, instead of going to bid and going through all that, let's renew now, give us another three years, and we'll give you a discount. So this last year you'll see a financial gain. We benefit because we get an extra two years on the contract and it didn't have to go out to RFP. So that ends up being a good thing for us.

Bill Shope - *Goldman Sachs - Analyst*

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

We don't have control over that. The customer might say, sure, sounds great. But then it takes an extra 2 months to get it done. And so that slips from one quarter to the next quarter. That throws all the math off, because it becomes part of the formula, how much was available to be renewed and how much did you renew?

Bill Shope - *Goldman Sachs - Analyst*

Two years ago it was more of a visibility issue?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Yes.

Bill Shope - *Goldman Sachs - Analyst*

Right. Okay. Questions from the audience?

Unidentified Audience Member

I came in a little late, so I apologize if I missed this. But I was just hoping you could talk about the Managed Print Business a little bit more. I guess first, just maybe from a competitive standpoint, we've heard HP talk a lot about wanting to get more aggressive in this space. So I'd love to hear about the competitive dynamics.

And then second, if you could just comment on how penetrated is this market? Where is there particular opportunity, maybe on a geographic basis?

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

And the second part was in relation to Managed Print also?

Unidentified Audience Member

Yes, both Managed Print.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Sure, I'll be glad to. First off, the Managed Print continues to be a great business for us. We started it probably a decade ago and are still the industry leader. Very [talented] enterprise which is probably not growing quite as fast, [is more] highly [public] penetrated and certainly feel some competitive pressures as people look for large deal opportunities. But we do find significant growth still in small-medium business. And one of the ways we're attacking that is through partners. We're providing our back office infrastructure systems to third parties to allow them to offer Managed Print Services, which (inaudible) is our systems will work not only on Xerox technology but third-party technology as well. So we're really interested in finding the best solution for the customer and managing that whole environment for them.

So we still feel very good about it. It's growing, $3-plus billion business, and, yes, it's competitive. But we think we [have broadest] array of product capability, software tools, and solutions, which we think are second-to-none. We're vendor-agnostic in terms of how our software plays on the system and we're still very confident in that.

From a competitive perspective, I can't speak specifically to our competitors. They're certainly very interested in it as well. But what I do know is I think we feel very good about not only the capabilities we have today, but what we're going to keep bringing out in the future.

So we feel good about the space and particularly growing, I'd say the small-medium business, particularly medium business growing very, very well. Global imaging, which is a kind of a [deal or] infrastructure, they're doing fantastic in a kind of a mid-market offering of business document outsourcing services. And really, it's their lead offering today as well. So continues to grow.

And the benefit for us is we're very [lone] share leader in single function printers. And there's, over the years has been a huge proliferation of these single function printers in many enterprises. They don't fully understand the cost associated with those, because they've been done on a decentralized basis. And we can help either manage those costs in that same footprint or we can help consolidate that footprint on multifunction devices and/or other devices [that we own].

Unidentified Audience Member

Lynn, could we touch on your acquisition strategy [in] services overall? There's always a steady pace of, I'd say small acquisitions. So if we can talk about the strategy behind that, and then also your appetite for, perhaps, larger deals and where you have opportunities for growth in that respect?

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Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Our acquisition strategy, we use acquisitions for three or four key reasons. One, we can obtain technology. We bought a company called [Belli DS] in the UK that does data analytics for wireless providers. And we're a very big customer care provider for the Verizons of the world. So we acquired that company because they had a great analytic capability, rather than us building it. So it's less expensive for us. We get a revenue stream with it, a profit stream, versus having a bunch of programmers sit and try to figure that out. So one is that we acquire technology.

The second is that we do it for geographic expansion. In this case, we not only got some great technology, we also added to our footprint in the UK and in Europe.

The third is that we may consolidate a competitor. If we're able to buy -- and it doesn't happen a lot, but we may have a small regional company that we compete against and they might provide us with some more geographic coverage and we can consolidate the competition.

So those are the key reasons. And we have a strategy with our customers that we call penetrate and radiate. And the concept is win a piece of business with a company, especially big company, and do a good job, and what will happen is they'll ask you to do something else. It's a very sophisticated strategy. You know what? It works. It works really well.

And if you look at our customer growth, typically we'll start out with a million dollars or $5 million, and 3 or 4 years later we're doing $20 million or $25 million, because we're not only doing that ITO task, now we're doing finance and accounting and HR. Or in claims processing, instead of just doing the mailroom, I mean to pick a simple example. Instead of just doing the mailroom, now we do, we call the doctors, we mail back the -- or we send an electronic record back or we print the notice to the -- [we've sort of] taken that entire continuum. We do audits for claims whereas we used to not do that.

So we just -- and an acquisition is a great way to take that continuum of service and say, we're missing that piece, let's go find somebody that does that and have them fit in. So typically that's the acquisition strategy. It's driven at the line of business level. So each of the chief operating officers that we have is responsible to say, okay, where are we going in our IT business? What are our growth strategies? And do we get there by building versus buying? And that's how it works.

In terms of large acquisitions, we have -- we haven't -- a typical good acquisition for us typically is somewhere between $25 million and $100 million. If there's a -- now and then we'll come across a bigger deal. But still in the overall scheme of Xerox, there isn't a -- we're not working on anything that would be -- that would fall way outside of the -- we look at deals, but it's tougher for us to do something if it gets much above that size.

Unidentified Audience Member

Right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Doesn't mean we can't do it, but it's -- we only -- we have a finite amount of dollars that we're going to spend and try to make sure that we're getting the most leverage out of that.

Bill Shope - *Goldman Sachs - Analyst*

Okay. Great. Well, we have time -- there's one more question. Right here?

Unidentified Audience Member

I guess the question would be, is there anything to be excited about on the hardware side? There's a lot of news out there about printed -- number of printed pages going down, the effect of that on consumables, the lengthening sort of, of hardware sales cycles. I'm just curious whether you guys are seeing anything different or whether that consensus is true.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Well, I think one is, we feel very good about our business. In fact, we have a significant product refresh that's undergoing this month. We've already announced some production devices this month and there's some general office product refresh in both color, multifunction models that's going to happen in the next week. So we feel positive about that.

We've been fairly open that we recognize there are, one, secular issues in certain segments of the market, particularly printing of statements and transactional kind of work we think in the very, very home market and individual market, there's more viewing devices that were being used. And in the general world, there's probably a decline. And we recognize that. We're probably one of the few companies out there that admit that and are really positioning ourselves for a more services-oriented portfolio, which over two-thirds of our business will be services in the next -- over the next 4 or 5 years.

Having said that, we're going to continue and invest in those areas that are growing. We have a leadership position. We're going to maintain that leadership position in the growth areas, which are really color, multifunction, shared devices, services-led devices, and production where there's a continuing thrust, I think of moving from offset to more digital. And as the economy picks up, which has had an impact on marketing spend and so forth for clients, we want to be sure we're well-positioned to take advantage of more printed marketing capabilities, customer communication capabilities, which in the digital world provide a much higher ROI to firms when they use it.

So yes, certainly, there's some sector issues. There are some macro issues. Our eyes are wide open relative to that. It's still a great business. We want to compete aggressively in that, refreshing our product line to do so. But we're going to do it in the areas that we think the market has lags and isn't necessarily contracting significantly.

Bill Shope - *Goldman Sachs - Analyst*

All right.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

It's been a good year for us, though.

Bill Shope - *Goldman Sachs - Analyst*

Well, thank you for joining us.

Lynn Blodgett - *Xerox Corporation - President Xerox Services*

Thank you, Bill. We appreciate it. Thank you.

Bill Shope - *Goldman Sachs - Analyst*

Jim, thank you.

Jim Lesko - *Xerox Corporation - VP IR*

Thanks, Bill. Appreciate it.