

A modern office interior with large glass windows, people working at a table, and a digital display on the wall. The scene is brightly lit with overhead lights and natural light from the windows. A person is walking in the foreground, slightly out of focus. A digital display on the right wall shows a blue architectural rendering of a building. The overall atmosphere is professional and collaborative.

Non-GAAP Financial Measures

Q4 2022 Results

January 26, 2023

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. 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. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

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 Condensed Consolidated Financial Statements prepared in accordance with GAAP.

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

Adjusted Earnings Measures

- Net Income (Loss) and Earnings per share (EPS)
- Effective Tax Rate

The above measures were adjusted for the following items:

- Restructuring and related costs, net: Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.
- 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. 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
- Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.
- Other discrete, unusual or infrequent items: We exclude these items, when applicable, given their discrete, unusual or infrequent nature and their impact on our results for the period.
 - Non-Cash Goodwill impairment charge
 - Contract termination costs – product supply
 - Accelerated share vesting - stock compensation expense associated with the accelerated vesting of all outstanding equity awards, according to the terms of the award agreement, in connection with the passing of Xerox Holding's former CEO.
 - Loss on extinguishment of debt

Non-GAAP Financial Measures

Adjusted Operating Income (Loss) and Margin

We calculate and utilize adjusted operating income (loss) and margin measures by adjusting our reported pre-tax income (loss) and margin amounts. In addition to the costs and expenses noted as adjustments for our adjusted earnings measures, adjusted operating income (loss) and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. 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.

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.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is not the U.S. dollar. 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 trends in our business, we believe that it is helpful to adjust operating cash flows by subtracting amounts related to capital expenditures. 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.

Net Income (Loss) and EPS Reconciliation

(in millions, except per share amounts)	Three Months Ended December 31, 2022		Three Months Ended December 31, 2021		Year Ended December 31, 2022		Year Ended December 31, 2021	
	Net Income	Diluted EPS	Net (Loss) Income	Diluted EPS	Net (Loss) Income	Diluted EPS	Net (Loss) Income	Diluted EPS
Reported ⁽¹⁾	\$ 121	\$ 0.74	\$ (675)	\$ (3.97)	\$ (322)	\$ (2.15)	\$ (455)	\$ (2.56)
Adjustments:								
Goodwill Impairment	-		781		412		781	
Restructuring and related costs, net	24		(1)		65		38	
Amortization of intangible assets, net	11		13		42		55	
Non-service retirement-related costs	6		(25)		(12)		(89)	
Contract termination cost - product supply	-		-		33		-	
Accelerated Share Vesting	-		-		21		-	
Loss on Extinguishment of Debt	1		-		5		-	
Income tax on adjustments ⁽²⁾	(17)		(31)		(55)		(37)	
Adjusted	<u>\$ 146</u>	<u>\$ 0.89</u>	<u>\$ 62</u>	<u>\$ 0.34</u>	<u>\$ 189</u>	<u>\$ 1.12</u>	<u>\$ 293</u>	<u>\$ 1.51</u>
Dividends on preferred stock used in adjusted EPS calculation ⁽³⁾	\$ -		\$ 3		\$ 14		\$ 14	
Weighted average shares for adjusted EPS ⁽³⁾		165		173		157		185
Fully diluted shares at end of period ⁽⁴⁾		165						

(1) Net Income (Loss) and EPS attributable to Xerox. Fourth quarter and full year 2021 Net (Loss) and EPS include an after-tax non-cash goodwill impairment charge of \$750 million, or \$4.38 per share and \$4.08 per share, respectively. Full year 2022 Net (Loss) and EPS include an after-tax non-cash goodwill impairment charges of \$395 million or \$2.54 per share.

(2) Refer to Effective Tax Rate reconciliation.

(3) For those periods that include the preferred stock dividend, the average shares for the calculations of diluted EPS exclude the 7 million shares associated with Xerox Holdings Corporation's Series A Convertible preferred stock.

(4) Represents common shares outstanding at December 31, 2022 and potential dilutive common shares used for the calculation of adjusted diluted EPS for the fourth quarter 2022. Includes shares associated with our Series A convertible preferred stock, which were dilutive for the fourth quarter 2022.

Effective Tax Rate Reconciliation

(in millions)	Three Months Ended December 31, 2022			Three Months Ended December 31, 2021			Year Ended December 31, 2022			Year Ended December 31, 2021		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate
Reported ⁽¹⁾	\$ 146	\$ 24	16.4%	\$ (711)	\$ (36)	5.1%	\$ (328)	\$ (3)	0.9%	\$ (475)	\$ (17)	3.6%
Goodwill Impairment ⁽²⁾	-	-		781	31		412	17		781	31	
Non-GAAP Adjustments ⁽²⁾	42	17		(13)	-		154	38		4	6	
Adjusted - revised ⁽³⁾	<u>\$ 188</u>	<u>\$ 41</u>	<u>21.8%</u>	<u>\$ 57</u>	<u>\$ (5)</u>	<u>(8.8)%</u>	<u>\$ 238</u>	<u>\$ 52</u>	<u>21.8%</u>	<u>\$ 310</u>	<u>\$ 20</u>	<u>6.5%</u>

(1) Pre-Tax Income (Loss) and Income Tax expense (benefit)

(2) Refer to Net Income (Loss) and EPS reconciliations for details.

(3) The tax impact on the Adjusted Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income (Loss) under ASC 740, which employs an annual effective tax rate method to the results.

Operating Income (Loss) and Margin Reconciliation

	Three Months Ended December 31, 2022			Three Months Ended December 31, 2021			Year Ended December 31, 2022			Year Ended December 31, 2021		
	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
Reported ⁽¹⁾	\$ 146	\$ 1,941	7.5%	\$ (711)	\$ 1,777	(40.0)%	\$ (328)	\$ 7,107	(4.6)%	\$ (475)	\$ 7,038	(6.7)%
Adjustments:												
Goodwill impairment	-			781			412			781		
Restructuring and related costs, net	24			(1)			65			38		
Amortization of intangible assets, net	11			13			42			55		
CEO accelerated share vesting	-			-			21			-		
Other expenses, net	(3)			4			63			(24)		
Adjusted	<u>\$ 178</u>	<u>\$ 1,941</u>	9.2%	<u>\$ 86</u>	<u>\$ 1,777</u>	4.8%	<u>\$ 275</u>	<u>\$ 7,107</u>	3.9%	<u>\$ 375</u>	<u>\$ 7,038</u>	5.3%

(1) Pre-tax income (loss)

Free Cash Flow Reconciliation

(in millions)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Reported ⁽¹⁾	\$ 186	\$ 198	\$ 159	\$ 629
Less: capital expenditures	18	16	57	68
Free Cash Flow	<u>\$ 168</u>	<u>\$ 182</u>	<u>\$ 102</u>	<u>\$ 561</u>
Add: one-time contract termination charge - product supply	-	-	41	-
Free Cash Flow - Adjusted	<u>\$ 168</u>	<u>\$ 182</u>	<u>\$ 143</u>	<u>\$ 561</u>

(1) Net cash provided by operating activities

Other Expenses, Net Reconciliation

(in millions)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Reported	\$ (3)	\$ 4	\$ 63	\$ (24)
Less: non-service retirement-related costs	6	(25)	(12)	(89)
Adjusted	\$ (9)	\$ 29	\$ 75	\$ 65

Net Income (Loss) and EPS Reconciliation - Historical

(in millions, except per share amounts)	Q1-21		Q2-21		Q3-21		Q4-21		Year Ended December 31, 2021		Q1-22		Q2-22		Q3-22	
	Net		Net		Net		Net		Net		Net		Net		Net	
	Income	EPS	Income	EPS	Income	EPS	(Loss) Income	EPS	(Loss) Income	EPS	Loss	EPS	(Loss) Income	EPS	(Loss) Income	EPS
Reported ⁽¹⁾	\$ 39	\$ 0.18	\$ 91	\$ 0.46	\$ 90	\$ 0.48	\$ (675)	\$ (3.97)	\$ (455)	\$ (2.56)	\$ (56)	\$ (0.38)	\$ (4)	\$ (0.05)	\$ (383)	\$ (2.48)
Goodwill Impairment ⁽²⁾	-		-		-		781		781		-		-		412	
Restructuring and related costs, net	17		12		10		(1)		38		18		1		22	
Amortization of intangible assets	15		14		13		13		55		11		10		10	
Non-service retirement-related costs	(20)		(22)		(22)		(25)		(89)		(7)		(4)		(7)	
CEO Accelerated Share Vesting	-		-		-		-		-		-		21		-	
Loss on early extinguishment of debt	-		-		-		-		-		-		4		-	
Contract termination costs ⁽³⁾	-		-		-		-		-		33		-		-	
Income tax on adjustments	(4)		(1)		(1)		(31)		(37)		(13)		(4)		(21)	
Adjusted	<u>\$ 47</u>	<u>\$ 0.22</u>	<u>\$ 94</u>	<u>\$ 0.47</u>	<u>\$ 90</u>	<u>\$ 0.48</u>	<u>\$ 62</u>	<u>\$ 0.34</u>	<u>\$ 293</u>	<u>\$ 1.51</u>	<u>\$ (14)</u>	<u>\$ (0.12)</u>	<u>\$ 24</u>	<u>\$ 0.13</u>	<u>\$ 33</u>	<u>\$ 0.19</u>
Dividends on preferred stock used in adjusted EPS calculation ⁽⁴⁾		\$ 4		\$ 3		\$ 4		\$ 3		\$ 14		\$ 4		\$ 3		\$ 4
Weighted average shares for adjusted EPS ⁽⁴⁾		198		189		182		173		185		156		156		157

⁽¹⁾ Net Income (Loss) and EPS attributable to Xerox Holdings.

⁽²⁾ Fourth quarter and full-year 2021 Net (loss) and EPS include an after-tax non-cash goodwill impairment charge of \$750 million (\$781 million pre-tax) or \$4.38 and \$4.08 per share, respectively. Third quarter 2022 Net loss and EPS include an after-tax non-cash goodwill impairment charge of \$395 million, or \$2.54 per share

⁽³⁾ Reflects contract termination costs - termination of a product supply agreement in the first quarter of 2022.

⁽⁴⁾ For those periods that exclude the preferred stock dividend the average shares for the calculations of diluted EPS include 7 million shares associated with Xerox Holdings Corporation's Series A convertible preferred stock, as applicable.

Operating Income (Loss) and Margin Reconciliation - Historical

(in millions)	Q1-21			Q2-21			Q3-21			Q4-21			Year Ended December 31, 2021			Q1-22			Q2-22			Q3-22		
	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin	Loss	Revenue	Margin	(Loss) Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
Reported⁽¹⁾	\$ 53	\$ 1,710	3.1%	\$ 99	\$ 1,793	5.5%	\$ 84	\$ 1,758	4.8%	\$ (711)	\$ 1,777	(40.0%)	\$ (475)	\$ 7,038	(6.7%)	\$ (89)	\$ 1,668	(5.3%)	\$ (5)	\$ 1,747	(0.3%)	\$ (380)	\$ 1,751	(21.7%)
Adjustments:																								
Goodwill impairment	-			-			-			781			781			-			-			412		
Restructuring and related costs, net	17			12			10			(1)			38			18			1			22		
Amortization of intangible assets	15			14			13			13			55			11			10			10		
CEO Accelerated Share Vesting	-			-			-			-			-			-			21			-		
Other expenses, net	4			1			(33)			4			(24)			57			8			1		
Adjusted	\$ 89	\$ 1,710	5.2%	\$ 126	\$ 1,793	7.0%	\$ 74	\$ 1,758	4.2%	\$ 86	\$ 1,777	4.8%	\$ 375	\$ 7,038	5.3%	\$ (3)	\$ 1,668	(0.2%)	\$ 35	\$ 1,747	2.0%	\$ 65	\$ 1,751	3.7%

⁽¹⁾ Pre-Tax Income (Loss).

Free Cash Flow Reconciliation – Historical

(in millions)	Year Ended							
	Q1-21	Q2-21	Q3-21	Q4-21	December 31, 2021	Q1-22	Q2-22	Q3-22
Reported⁽¹⁾	\$117	\$214	\$100	\$198	\$629	\$66	(\$85)	(\$8)
Less: capital expenditures	17	16	19	16	68	16	13	10
Free Cash Flow	<u>\$100</u>	<u>\$198</u>	<u>\$81</u>	<u>\$182</u>	<u>\$561</u>	<u>\$50</u>	<u>(\$98)</u>	<u>(\$18)</u>

⁽¹⁾ Net cash provided by operating activities.

2021 Quarterly Segment Results

<i>(in millions)</i>	External Net Revenue	Intersegment Net Revenue ⁽¹⁾	Total Segment Revenue	% of Total Revenue	Segment Profit	Segment Margin ⁽²⁾
Q1 2021						
Print and Other	\$ 1,533	\$ 48	\$ 1,581	90%	\$ 71	4.6%
Financing (FITTLE)	177	3	180	10%	18	10.2%
Total	\$ 1,710	\$ 51	\$ 1,761	100%	\$ 89	5.2%
Q2 2021						
Print and Other	\$ 1,619	\$ 53	\$ 1,672	90%	\$ 111	6.9%
Financing (FITTLE)	174	3	177	10%	15	8.6%
Total	\$ 1,793	\$ 56	\$ 1,849	100%	\$ 126	7.0%
Q3 2021						
Print and Other	\$ 1,590	\$ 46	\$ 1,636	91%	\$ 50	3.1%
Financing (FITTLE)	168	3	171	9%	24	14.3%
Total	\$ 1,758	\$ 49	\$ 1,807	100%	\$ 74	4.2%
Q4 2021						
Print and Other	\$ 1,613	\$ 46	\$ 1,659	91%	\$ 61	3.8%
Financing (FITTLE)	164	3	167	9%	25	15.2%
Total	\$ 1,777	\$ 49	\$ 1,826	100%	\$ 86	4.8%
2021						
Print and Other	\$ 6,355	\$ 193	\$ 6,548	90%	\$ 293	4.6%
Financing (FITTLE)	683	12	695	10%	82	12.0%
Total	\$ 7,038	\$ 205	\$ 7,243	100%	\$ 375	5.3%

⁽¹⁾ Reflects net revenue, primarily commissions and other payments, made by the Financing segment (FITTLE) to the Print and Other segment for the lease of Xerox equipment placements.

⁽²⁾ Segment margin based on external net revenue only.

Operating Income and Margin – Guidance

(in millions)	FY 2023		
	Profit	Revenue (CC) ^(2, 3)	Margin
Estimated ⁽¹⁾	~\$200	~\$7,100	~2.8%
Adjustments:			
Restructuring and related costs, net	75		
Amortization of intangible assets	40		
Other expenses, net	20		
Adjusted	<u>~\$335</u>	<u>~\$7,100</u>	At least 4.7%

⁽¹⁾ Pre-tax income and revenue

⁽²⁾ Full-year revenue is estimated to be flat to down low-single-digits, in constant currency. Revenue of \$7.1 billion reflects the high end of the guidance range

⁽³⁾ See "Constant Currency" in the Non-GAAP Financial Measures section for a description of constant currency.

Free Cash Flow – Guidance

(in millions)	FY 2023
Operating Cash Flow⁽¹⁾	At least \$550
Less: capital expenditures	50
Free Cash Flow	<u>At least \$500</u>

(1) Net cash provided by operating activities

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