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XRX - Xerox Corporation 2013 Investor Conference

EVENT DATE/TIME: NOVEMBER 12, 2013 / 2:00PM GMT

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PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Xerox Corporation 2013 Investor Conference, hosted by Ursula Burns, Chairman and Chief Executive Officer. She is joined by Kathy Mikells, Executive Vice President and Chief Financial Officer, Lynn Blodgett, Executive Vice President and President Xerox Services and Armando Zagalo de Lima, Executive Vice President and President Xerox Technology.

During this conference, Xerox executives may make comments that contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995 that by their nature, addressed 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 diver materially.

Information concerning these factors is included in the company's most recent annual report on Form 10-K and its subsequent quarterly reports in Form 10-Q filed with the SEC. We do not intend to update these forward-looking statements as a result of new information or future events or developments except as required by law.

(VIDEO PLAYING)

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Good morning. I'm Ursula Burns, the Chairman and CEO of Xerox Corporation and I'm glad that you're here with us today. As you heard, 75 years ago Xerography was invented. This guy called Chet Carlson was a patent attorney and he wanted to figure out a way to eliminate carbon paper from the copying process to make it simpler.

He wanted to take this business process that was core to him, doing his ultimate work and transform that business process fundamentally by applying technology. This drive for simplification and the application of technology is what drove Xerox years ago, what drives us today and will continue to drive us as we go forward into the future.

By the time the morning is over, I hope that you will understand we're going to double down in 2014 and beyond, what we're going to do, what assets we're going to apply to make sure that we can differentiate ourselves and drive our business forward. You'll hear from myself, my team, Lynn Blodgett, Armando de Lima and Kathy Mikells, on the details that we'll use to do just that.

So thank you for joining me and my team here today at the New York stock exchange and I know that there are quite a few of you on the Web. Thank you for joining us on the Web as well.

When I was growing up, people used to always say that -- my mother used to always say that the world is changing. The world is changing faster than you could ever imagine. Today, I think we can actually say that with certainty that the world is changing faster than ever before.

In the world today, there are almost 7 billion people. And in our lifetime, it's very likely that there will be 9 billion people on the Earth, 9 billion people in a short span of time. All these people are moving towards urban centers. All of these people are -- have access to technology. I was just in India. You walk in the streets in India or actually ride slowly through the streets in India and everybody has a cell phone or some kind of digital device. So technology is everywhere. People are moving towards urban centers and then a number of people who have access to wealth and more money is growing every single day.

These changes in the market place are driving some fundamental transformation that Xerox actually is taking advantage of. Let's think about healthcare. The biggest area of transformation in the United States is healthcare. We're moving from a fee-for-service model to a fee-for-outcome model. So an outcome based medical system.

We Xerox is at the heart of this transition from states, payers, to providers, to insurance companies, to private plans as well. So in the heart of this big move, Xerox is in the center of it. You can think about transportation. Everyone is moving everywhere. Urban centers are becoming more crowded.

Municipalities are trying to figure out a way to actually provide better service, fundamentally better service, to be concentrating on the ecology as well as on the economy. They're driving and focusing on parking on safety, on literally just moving more and more people around the municipalities in a more efficient way. And the center of this transformation, adding value and helping these municipalities solve these problems, Xerox is there.

Think about graphic communications and the need for people to now, with all of the information that's available for people to now actually be able to pinpoint what's important to them and for providers, for people who sell things, to speak directly to customers who want to be interested in what they're selling. So turning all of this information into profit, this graphic communications industry is at the center of that and Xerox is at the center of that industry.

You can think about enterprises, we work everywhere and on all the time. Used to be really simple. You walk into your office, you turned on your computer, you stayed in your space. The companies could actually keep that information secure. They can provide you access, everything will be simple. They prescribed how you worked and where you worked and when you worked. That's no longer the case today.

Today, you worked everywhere. You have to have access to everything. People want to bring their own devices. Enterprises have to provide them with a secure safe way, not only for the employees but for the enterprises as well. At the heart of this set of transformations, Xerox is there with their Document Outsourcing business and their ITO business.

We think about customer care. It used to be simple, right? Just call X for something, read a script, get the information back and then literally take the next call and take the next call. And it was all about cost at that time, no longer. Customers provide -- our customers want to have actually less calls come in. They want this to be a source of revenue for them, not a cost deferment anymore. They want us to actually be engaged in up selling, providing analytics to them to actually figure out the next solution that should be available.

Our customer care business is phenomenal. We're a great cost provider, but we are now moving up the scale and becoming an information provider and allowing our customers to be significantly more effective in how they run their businesses.

And to think about education, it's almost like healthcare, right? Education used to be a fee-for-service. You come in, you pay for first grade, second grade, third, fourth grade. Now people want to actually -- states and parents want to actually pay for outcome. They want skilled students coming out of the schools. Governments are now capping the amount of money the state or municipality can get if they don't meet certain standards of education.

Teachers are looking for ways to actually fundamentally change their day, such that they can actually spend significantly more time working on educating the student, versus on the -- all of the bureaucracy and the paperwork and the grading and all of this other stuff that actually distracts them from their core mission. At the center of this huge explosion in population and technology and urbanization, at the center of this and some of these massive changes, Xerox is at the heart of that.

And so, where we are today is fundamentally different than where we were in the past. And our value proposition therefore has to be very different. The first is that we're shifting our services -- our business towards services. 56% of our revenues in 2013 will be from services. And by 2017, we'll be at about two-thirds of our revenue.

That's a purposeful move, one that's managed, will align our resources and our investments towards that shift in Document Outsourcing and BPO as our focus would have very, very strong document technology based in foundation, for the help to fund some of that movement.

We're focusing not on just everything. These six areas that I spoke about, are things that clients are working on every day. They are big problems for our clients, and so we're actually focused on what we call these advanced verticals. The one that's the most top of mind to everyone is healthcare. It's a $2 billion business for us. We kind of happened into this. I don't think that Lynn would say that, but we happened into this. The entire value changed from the payer, all the way to the insured to the provider and literally to the patient who wants more access to the information.

We're at the heart of this type transformation and we'll continue to invest to make sure that we actually take the long view, we make the investment necessary. This has been an area that has been a little bit of a challenge, healthcare in particular, where we have to stand up some pretty advanced platforms to states ready to actually comply with laws. It's a big gulp for us, but I think that we're making very, very good progress and it's a good foundation for the future. We have remarkable assets, not just in Healthcare, but in Technology and Document Outsourcing and customer care, finance and accounting and these verticals that are key to us.

We will in 2014 have a keen focus and even more intense focus on cost and expense in assuring that we can actually expand our margins. This is an area that we've made some progress in 2013. We will double and triple down here and you'll hear from Lynn and a little bit from Armando and a lot from Kathy on what we're doing to actually assure that we can actually expand our margins by at least on a company basis, 30 basis points in 2014.

And if we do that, when we do that, we'll continue to be a shareholder friendly company, returning about 50% of our free cash flow to investors in 2014 at a minimum. We'll manage cash, we'll do it well and we'll assure that our shareholders participate in the success of the company.

So here's a little bit of a report card of what we did in 2013. We have a portfolio that's fairly large, very, very broad. And we actually have started to take a very detailed look at the portfolio in a very granular level in technology service then at the corporate center. And we outsource, we sold one business, the paper business a business that most people didn't even really know that we were in. We sold it in the US and in Europe.

We'll continue to actually look at the portfolio to divest in the areas that are not key to us so that we can't degrade in, but more importantly, to invest in areas that we have to differentiate ourselves. We will acquire companies in these advanced verticals. We will invest sales resources in these verticals. We will hire people into the company and we're doing that today that can help us to be better, more experts in these areas.

So it's not just a divestiture focus, it's literally about an investment move as well. Product competitiveness is something that we're known for in our technology business. We can't just walk away from that market. There are segments that are growing and continue to invest. At the high-end we bought a company called Impika to actually open up the liquid -- the aqueous ink printing business for us. We already have a waterless ink base and we have a very, very good position there. We'll continue to invest there.

In the office segment, we launched ConnectKey at the earlier part of this year and it's doing phenomenally in the market place. And in Managed Print Services, we're investing to actually move management services to the next level as well. So in the portfolio that we actually invent around in our technology business, we're going to continue to invest to make sure that we are leaders. We are equipment share leader and we want to stay that way.

Our operating model is one that's pretty predictable. We will have, we will continue to have a steady stream of restructuring in our business to assure that we expand margins. Prices come down, renewals are not always at a 100%, literally there's loss business. We have to just manage aggressively everyday as a normal part of our business model, a steady stream of cost initiatives. Using that as well as innovation to change the way that work is done. Moving people off shore just the whole mix of managing our cost base to be lower and significantly more efficient.

We'll also use partners. We started with this awhile ago, Fuji Xerox is a great example. We have Flextronics a good manufacturing for us. Most recently, we have a partnership with Cognizant, with HCL that'll help us to move in areas that we don't want to invest all of the resources or we don't have the skills that we need. We'll actually use partners to help us to actually just be better and have our operating model be more precise.

We'll continue to invest, as I said earlier. Healthcare was the biggest investment in 2013 and actually probably in 2012 and will continue to be an investment on the go-forward basis. We launched our advanced Medicaid platform. We're involved in health insurance exchanges. A whole bunch of them, Lynn will talk to you about this in more detail. And we are expanding internationally.

This has going a little bit slower than I wanted it to go. I want it to be, there's number I have in mind and my team knows what it is. And until I get to that number, I won't say publically what it is. But we're not quite there yet. But we are making progress. The biggest place that we are slow is in Europe in the European economy has contributed to that, but we're doubling down in that area as well.

And if we do those thing, make these investments have a precise operating model, et cetera. We'll be able to increase our payment to the shareholders. We increased our dividend by 35% in April of this year as you know. And so far, to October, we purchased almost $280 million worth of stock.

So the focus for 2014 and beyond is two things. One is to differentiate and the other one is to deliver. Differentiate by literally using the platforms, the horizontal platforms that we have to differentiate these advantage verticals. The key, they're not everywhere. We don't do it everywhere. We have advantage verticals, the six that I talked about, at least. We want to go international and we want to use innovation to actually differentiate ourselves in the marketplace. And then we want to focus on cost and focus on excellent execution.

This is something that I would grade as about a B today, maybe a B minus. And we have to move to the A level to actually be world class. And we're focusing on that to assure that we can deliver every single day on the commitments that we make first to our customers. If we can do that, then we can actually be a predictable business.

So our direction is clear. We have confidence that the business model is sustainable. That it is real, that it can whether storms. And that it is a good platform for investment in the go-forward. We want to continue to be services driven, Business Profits Outsourcing, Document Outsourcing and Fixed Verticals and ITO. I want to differentiate our portfolio by applying innovation. Analytics is just the first step, and significantly more. We want to differentiate and not just be a me too player. We have to be customer focused and to do that, we have to be employee focused.

So we have a 140,000 people around the world that represent us every single day through our customers and we have to actually be committed to those people, give them the best so that they can actually serve our customers in a way that no one else can. We have to actually look at every single interaction that we have and make sure that we are best in class from profitability standpoint. And if we cannot get there, we will move out of that line business or find a partner who can be. And then finally, we absolutely have to drive earnings expansion, cast generation and continue to return at least 50% of our free cash flow to shareholders and we will do that.

So, here's the agenda. I won't go through with it in too much detail. You can read it. And it's going to be the Lynn, Armando and Kathy show. Primarily the Kathy show today. I'm setting her up for the big finale here. So, we have more than just those three though. So when I call the names of the other executives, you'll see them this afternoon and you'll them during milling around time. These guys who you connect some details about the business on.

Dave Amoriell, who is the Chief Operating Officer of our Transportation Services business. Tom Blodget, who's the Chief Operating Officer of Commercial Services business. Mike Feldman, who's the President of our Global Large Enterprise business where Document Outsourcing is housed. Jim Firestone who's the President of Corporate Operations. Jeff Jacobson who's the President of Global Graphic Communications. Jim Lesko, who you all know, who's our Vice President of Investor Relations.

The person who you should never have to talk to today is Don Liu, who's my General Counsel. Rhonda Seegal, who's our Treasurer. Leslie Varon, who's my Controller, who's the controller of the company. Stand up Leslie, we can see you when you're standing. Sophie Vanderbroek, who's my Chief Innovation Officer. She's our big brain in our company and Douraid Zaghouani, is the President of Channel Partner Operations.

So with that, let me introduce Armando de Lima, who will take you through the Document Technology business. Armando.

(VIDEO PLAYING)

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

Okay, good morning. I hope you are all feeling well. It's a pleasure to join you today. Talking about technology and the developments in the business, give you a sense of how the market is moving on. Our position in that market and the actions we are taking to the future.

So last year, for the ones that have been here last year and I hope it was many of you. I made these same statements and it's a kind of a reminder that this industry has been allowing us to enjoy strong operating margins, good profitability and strong cash generation.

So it is a contracting industry, no question about low single digit. But it's a strong industry that has been delivering for us for many, many years. And this is the result of our focus on productivity and operational efficiency. And that priority will stay with us as we move into the future, that's a personal and a team guarantee from the technology business. It's also an industry that we lead and we intend to continue to lead. And hopefully at the end of my session, you'll be understanding why we are confident, that we can continue to lead this industry.

So let me move you forward and give you what you more than probably already know. Our most recent performance, this is revenue and operating margin. You see the split between pure Technology and document outsourcing on the revenue side. The reason why we split 2013 in the three quarters is because of the launch, and we explained this to exhaustion due to the launch of our ConnectKey platform at the end of quarter one. It was a kind of strange effect into quarter one.

And so, I thought it was useful to give you the three quarters. But as you can see, obviously document outsourcing is of smaller size still versus technology. That's the reason why things don't balance each other and combined a -- reflect performance that is in-lined with the industry on the low single digit decline.

Operating margins, well within the range more on the high side of the range than on the low side of the range, but our guidance is to stay with the 9% to 11% operating margin, just reinforces and illustrates the strong operating margin in this industry.

So, let me give you a sense about the market place. As I said, this is a market place that is contracting, low single digit. We are contracting with the market, although we have a lot of plans to exactly align our resources where the growth is, because as you can see there are dynamics inside this contracting market that are important to understand.

Document outsourcing has been growing and will continue to grow into the -- this is a forecast from independent sources. So between 2012 and 2016, document outsourcing will grow 6% CAGR and production color is going to grow 9%. And it's important that you retain that inside production color, what is going to drive growth is production inkjet. And this will be important as we move along, although Ursula already mentioned that we acquired a production inkjet company called Impika but you'll understand how critical being strong on production inkjet is going to be into the future because 80% of the production color growth is going to be driven by production inkjet.

Office Non-Document Outsourcing, so we are talking about pure hardware transactions, in the office are going to decline by 8%. There is a bit of an acceleration and both black and white and color are going to decline, what maybe can surprise you a bit, but just be careful that splitting between Non-Document Outsourcing and Document Outsourcing is a bit artificial because there is one part that is a migration from one to the other.

So, but anyway, black and white production secular decline continuing at the same level around 13% to 14%. So this is the market place and as you are going to see, a lot of our focus is going to be on the growth areas. And obviously on keeping the ones that are declining because a lot of people ask me the question -- so when is this black and white production revenue going to go in order that you can hopefully improve your level of declines. Well, we don't want it to go. It's a very profitable business, it's a good business for us, it's one that will lead. So we want it to go down as slowly as we can, if you understand.

So let's move on and we'll come back to that in a second. And let me share with you quickly why we feel we have a strong position to continue to lead this industry into the future. Let me start obviously by document outsourcing, the 6% growth segment.

So curiously or not, we just announced yesterday our new generation of Managed Print Services. And this new generation is strongly anchored on a new offering called Workflow Automation. And it's also very anchored on a reinforced synergy with our BPO and ITO business. So I'll come back to that later on. But that's what I'm going to talk about on the MPS space.

On the graphic communication space, let me just give a word of clarification. So graphic communication, this is the segment that is recipient of the majority of our production solutions. So our high-end solutions. As I told you, production inkjet is going to be key here, so I'll talk about that. And how strong we feel in that space. It's all opportunity for us or almost all opportunity. Our share is small. So it's a good opportunity. It's going to grow 23% per year CAGR. So it's -- and it's 80% of the color growth as I told you.

Let's not forget Workflow Automation in this segment. It's not the same Workflow Automation of the Document Outsourcing segment, but graphic -- this is all about moving pages from offset to digital. So the organizations out there, a lot of them are not very big. They need help to do this transition. So Workflow Automation, what translates into productivity and services to help them to sell digital, what is a very different sell than sell off set is -- are key.

And then last but not least, I've been talking with you about our under coverage of the SMB market place, the Small Medium Business market place. I'll give you an update on where we are following last year. I talked with you about our intention to change that under coverage position. And all these again, with the focus on profitability and cash flow.

So let me go deeper into the MPS or the Managed Print Services area. We announced yesterday our next generation of Managed Print Services offerings. I have to say with some pride that it was extremely well received by the market. Particularly, I'm talking here about the industry analysts. This is an offering we created many years ago. And we have lead since then. It's now an overpopulated space. I mean, it's not overpopulated, it's more populated than it was, right? And where it's a space where there are more claims than capabilities, to be honest with you. And it's with particular good feeling that we see the industry is recognizing the value we brought and who brings these new generation of offerings.

So let me talk a bit about it. If you stop by the bottom. So first phase, assess and optimize, you'll know this. This is what we have done since we created the offering. We came to the market we basically -- we came and we still come to the market basically say -- you have your printing infrastructure out of control, underutilized and what we propose is to come in, assess it, optimize it, rationalize it and then manage it -- deploy it, manage it and deliver the banner sheets and the SLA. So this is what we have been doing for years.

The second phase, the security and mobility is something we have been doing, but this generation of offerings brings it to the next level. So, on the security and compliance, we just launched a new service called print audit service, that basically allows to easily insure compliance inside the enterprise. We also brought mobility as the print mobility service to the next level. Today, with the offering we bring to the market, you can say that you can print anywhere from any device within a total secure environment. And you know how important this is.

And last but not least, we partner with our ITO colleagues, use their expertise, ask them to host this new service called Print Server Service that's basically take away the responsibility in the enterprise and the IT resources associated with anything that relates with the management of print servers, print queues, you name it.

So this is what we brought new to the second phase that was already existing. The really new one is the top one, automate and simplify. And this is to respond to the growing requirements in a market place for Workflow Automation. Enterprises want really to get their work, their business processes more paper free, more electronic with natural objections, reduce cost, gain efficiency, et cetera.

So we brought our Managed Print Services, skills. We brought our document management tools and our content management tools at -- and now consultative services and we are working very closely with BPO on this phase, because obviously a simplified and electronic process can be much more easily outsourced than one that is manual and paper intensive.

So let me give you a little bit more meet around the bone on the Workflow Automation. So, this is as I said, a growing requirement in the market place. So enterprises are looking for gaining efficiency and speed on their business processes, taking anything that is manual, paper intensive into electronic format. We have a suite of offerings, I'm not going to go into too much detail here, but we have a suite of offerings from capturing, using our multifunctional devices, infrastructure, capturing and intelligently transforming paper to digital. Then joining the digital, already digital documents, route them to the right destination in an intelligent way.

We'll also bring with the new offering, we'll also bring management tools to the exploding content management environment. And we'll intend to offer standardized solutions to automate businesses processes across industries. So this will be horizontal solutions. And some verticals in areas where, in industries where we have document intensive business processes.

So, as I told you. This has been very well received by the industry, and always, I could not resist because we feel quite proud about it. I could not resist to give you this neutral perspective and I brought an extract of Gartner Report but I could have brought any other industry analyst. So this is the famous Gartner Magic Quadrant. I have to confess that I could not resist and I zoomed this for you in order that you can see all the names there. All the players.

So Xerox is now being positioned at the highest level ever and the axis, if you cannot see them are completeness of vision and ability to execution. Completeness of vision, being they simply -- the capability to understand the market, requirements and respond to them, capability to execute is based on the past demonstrative ability to deploy and what is believed to be the future capability to deploy the next generation.

Let me move on and give you an example of Workflow Automation because I really want you to feel the power of this new offering. This was a project we have made for a wealth management institution. It's a fairly simple, on boarding business process. So the issue was related with the timing it was taking to open new accounts for new clients. There was a feeling from the institution because of the manual and paper intensive component that this could be drastically improved and it could.

We basically have used our printing infrastructure, our Managed Print Services, skills and capability, life key as a software, software we have that allows to route stuff to the right location depending on the understanding of the content of the document. And our BPO, our BPO services. And we basically transformed the process that used to take three days to a process that is now done in two hours.

So, fundamentally, instead of using the manual process where documents were posted and with the waste of time that you can easily imagine. Associated it was scanned. They were transformed into digital format. They were associated with other required documents and then route it through using our software, Xerox Transaction Content Manager and route it to the right destination depending on where they need to go. And as I said, moving the business process from three days to a few hours. Saving half a million dollars a year but more importantly client satisfaction, clients able to trade and transact with the bank faster so revenue and profits are brought to the institution.

So these are projects we do in a kind of a, ad hoc basis. We want to now bring them to a point where they are repeatable and we are investing on the solution offering, further to what we have done already and we are investing on specific go-to-market because the way you sell this type of project is a bit different from what we are doing today.

Graphic communication. So I talked with you about the color growth on the production space. I also told you that it was fundamentally driven by inkjet, production inkjet. So as you, maybe know, maybe not, we launched the Solid Ink Production Inkjet set of products. But we felt that taking account the importance and the role that this segment is going to play. We need it to have an aqueous technology so we bought the company called Impika. And I talked with you about these 50 trillion pages that, of which probably 20% are eligible to be printed in digital. So we're talking about 10 trillion pages.

A lot of the forecasting is based on the fact that a part of these pages are going to move. There are still a few challenges for inkjet technology in terms of image quality and media flexibility. So all our efforts today are focused on improving inks, improving ink heads, improving printing processes and we are obviously getting our long tradition on the image quality and working with media supplies in the market place. We have done that the past and we'll do it again.

And now with the reinforced team of the Impika that is a company fully focused on inkjet development and manufacturing. So I could not resist to bring you a purely pictorial view of our range of hardware offerings in this space as a result of that. So if we could move to the next slide and then we'll come back for a second.

So this is our two Solid Ink inkjet printers and this is what Impika brought to the game. So we have now -- we have the only play in the market place offering aqueous and non aqueous, what definitely offers a range of opportunities and solutions that can meet any requirement in the market place. And we have these breath of offerings that this, I believe, position is quite solidly into capturing this growth opportunity.

Let's go back for a second, one more. Thank you. So let me talk now about cut-sheets. So as I told you, black and white in production is going to go down. We want to -- obviously, that go down as slowly as possible, very profitable part of the business. It's a business we lead with a big, big margin.

On the color space, the production color space is going to grow slower than inkjet production color but grow. We lead that space. We have 53% market share. We have another player, a strong player in this same space but we lead it. At Print 13, we launched a set of new offerings; hardware, software, workflow that just -- services that just reinforced our position.

We also launched on the EPC, Entry Production Color [high] a set of new products. This is a space, an important space also going to grow and our intention is to recover our leadership on that space. We are recovering market share, as we speak, and are believed with the products we are still going to launch that we'll recover market leadership soon.

So, an interesting challenge -- so let's go, let's pass these two slides, go to the next one. So last but not least, SMB. I talked with you about expanding our coverage on SMB. We put in place a lot of initiatives on that space. One is definitely associated with our Global Imaging, a company we bought in 2007. We continue to have this company operating in the eyesight of SMB, growing organically, acquiring companies. We have increased our multi brand reseller partners substantially and we have sharpened our focus on expanding channels in the developing markets that as you know we go to market through indirect channels.

So a lot of initiatives, some on early stages of the implementation, but a lot of expectation that will capture a bigger share of this segment that is 70% of the printing industry. So it's an important segment and it's a segment that is looking for differentiation and better margins. It's a segment that feels squeezed in many ways and we just launched our ConnectKey products. They are all about differentiation. They are all about innovation. They facilitate Managed Print Services that is another requirement of this segment.

We are extremely happy with the way our Xerox partner print services have been received. We have been growing very, very solidly in this space exactly because this expanding channel needs MPS with reliability and a minimum investment.

So I'm going to close by telling you that this is definitely an industry that is contracting in a predictable and manageable way. Low single digit, but it's an industry we lead and it's an industry that delivers good operating margins and delivers cash.

Our intention is to focus on these two priorities and continue to deliver on those. The focus will be delivered to productivity, precise cost management, operational efficiency. At the same time, I hope that I was capable to tell you how our action plan is addressing and our resources are aligned to go after the growth opportunities that exist in this industry.

We believe, and we are confident, that we are well positioned to capture that growth. And with that, I thank you for your time, your interest and it's with great pleasure I invite and give the stage to my colleague and good friend, Lynn Blodgett, to talk with you about services.

(VIDEO PLAYING)

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

All right. Thank you Armando. And I want to thank each of you for attending our conference today and for your ongoing interest in Xerox Corporation and Xerox story.

In 2014, we are committed to expand services margins by at least 50 basis points and to expand both our -- accelerate both our organic and our inorganic growth. And today, what I'm going to do is talk to you a little bit on the markets that we serve and where we are positioned in those markets and then I'm going to spend more time on doing a deep dive into our 5-plank strategy that we are following that will enable us to reach these objectives.

Let me remind you that BPO is a very diverse business. It's a very diverse market. It has businesses that are horizontal, like finance in accounting that we provide to General Motors, and it also has very vertical businesses like the management of toll collection system like the E-Z Pass system that we run for New York and New Jersey.

There are many markets and we play in many of them but not to all. In the markets where we do play, we lead, and we are often number one or number two in that market. For example, based on revenue, we are the number one customer care provider in the United States and we're number two globally. We're the number one provider of transactional BPO services globally. We're the number one provider of Managed Print Services globally and so forth.

We lead in those markets and we win in those markets for two main reasons. Number one, we have great subject matter expertise, deep subject matter expertise. And our Medicaid practice for example, our average managing director has 27 years of experience. Our average consultant in our Buck Consulting practice has 30 years of experience. The average number years of experience of my direct leadership team is over 30 years. And with all of that experience, we know that the one constant in our business is the need for change and the need to evolve.

The second reason that we -- that we lead and win in these areas has to do with our strong platforms. Our tolling platform that we call [Vector] is the leading platform in the industry. We have our new Medicaid system that we call Enterprise. That is the first new -- entirely new Medicaid system to be released in 15 years. We have a great analytics platform that we call [Midas] in our health care space and so on. So between our deep subject matter expertise and our strong platforms, we continue to lead and are strong in these various markets.

What we are doing now is to ensure our progress is -- we are implementing a five plank strategy that will help us expand our margins and help us accelerate growth. The business that we have is broken into five, or excuse me, into four major sectors. And those sectors as you can see on the slide, you see the market size, you see our relative to relative contribution or position of each of those markets in our portfolio, you see the growth that each of those markets are experiencing.

The key take away from this is that the markets where we play are large and they're growing. And there is enough growth in those markets for us to reach our objectives, enough opportunity for us to reach our objective without even considering market share expansion.

The other thing to consider is that much of this business is not yet outsourced. So there is plenty of opportunity we think for us to reach our growth objectives. The other is that we are a major player in each of these markets. With our average sector size of approximately $3 billion, so we're significant player.

If you look at the box below, you'll notice some of the key service offerings that we have in each of those -- each of those segments. Beneath those four sectors are almost 75 businesses. And those 75 businesses nearly all of them operate within the margin and growth ranges that we have outlined and laid out as our goals.

With that complex of a portfolio, there are some businesses that don't. And you can see from the Italicized wording that our student loan business that we've talked quite a bit about, our student loan business that affected both our government sector and our commercial sector, we saw significant runoff in student loan which created downward pressure on revenue growth and on margins.

In our health care business, we implemented two new stage, two new Medicaid systems this year. And the cost of the implementation of those systems and the cost of the development of those -- of that Medicaid platform caused some downward pressure on our margins. The same can be said of the health information exchanges.

And so, if you look at the -- that's a breakdown of the services that we offer. Now, in 2013, we saw some great opportunities and some challenges. As I mentioned we had some downward pressure. Our overall growth was impacted by a less -- I will say a [dirt] in M&A activity that really caused about a 2% revenue -- less revenue than we had expected because our M&A activity was lower than what we expected.

We also saw the downward -- revenue downward pressure of student loan as I said, and some transactional volume that we had was a little bit lower. Our segment margins were pressured for the reasons that I gave because of the startup cost of our Medicaid system and our health insurance exchange as well as student loan runoff.

And that's why we're implementing this five plank strategy to be able to overcome these trends and to increase margins by 50 basis points at least. Our five point -- our five plank strategy is centered around portfolio management, around global growth, cost transformation, operational excellence and analytics. Now, let me go into the deeper dive.

Our portfolio is complex and it is driven primarily by the opportunistic acquisition strategy that we had when we [raise ECS]. That diverse portfolio has served us well. And it's part of the reason that we've been able to do well in good times and in bad times. But because of the change in the market, change in competition and because of our desire to accelerate growth in those businesses that offer higher margin and higher growth opportunities, it's important that we alter that strategy somewhat.

We want to in a reasonable way narrow that portfolio somewhat so that we're able to invest as Ursula said, it's really more about having money to invest in the areas where we want to double down, the areas that we think offer the greatest growth and greatest margin opportunities.

We have businesses like health care that we've talked about. And if you look at health care and then go a little further into analytics in health care or if you look at transportation that has tremendous global application both in terms of international acquisitions, analytics, new tolling platforms and so on, customer care where we have a very strong global presence, these are all businesses where we want to accelerate our investments. We want to build out in Asia and in Latin America, more sales resources in our transportation business for example.

But we have other businesses where we are strong -- we have a strong leadership position. But there may be less growth opportunity. Our child support payment processing business would be a good example of that, where we have 60% market share.

Now, that's a business that we want to maintain our leadership, we want to make prudent investments in our -- in maintaining the platform and enhancing the platform so that we assure that we maintain the leadership position. We also want to invest in our people, to make sure that we have strong customer relationships but we will probably not spend a lot or [air mark] a lot of acquisition or resources, for acquisitions in a market like that. We have several businesses that fall in that category.

And then we have businesses that are in there due to their kind of their life cycle if I can say it that way, but we're the best value that we can get from them is to harvest them for cash or in some cases to divest, in other cases they might actually be turnaround situations and we don't want to make investments until we've -- significant investments until we fix the underlying operational issues.

So those are the things that we're trying to do from an overall portfolio. The other driver, two more drivers that help us balance the portfolio have to do with acquisitions. Now, acquisitions, we have a three point strategy, one is global expansion, the second is data analytics and the third is expansion of our current capabilities.

Now, last year, we acquire the company called WDS. And WDS gave us additional capabilities in customer care, it also address international markets, gave us more markets in customer care. And it brought to us the state of the art in data analytics and social media and in product in our largest customer care area which is the wireless industry.

Now, not every acquisition that we approach is going to take all the boxes, but obviously one that takes all three is going to receive a higher priority than one that takes only one. Not all of them are going to do like WDS and take all three, but it's certain that we will not pursue acquisitions that don't take at least one of the boxes.

The second driver in our portfolio has to do with Bookings. And where are we focusing our sales resources and what does that doing to drive the mix and help. We're trying to mix up into higher growth, higher margin business. As you can see from this chart that our ITO bookings are down but our BPO and document outsourcing bookings are up. Bookings have the greatest impact on growth in the year after the booking.

So you can see in 2011, our strong growth in 2012 was driven by very strong bookings in 2011. 2013, our bookings are up in both document outsourcing and BPO which represents about 90% of the portfolio. The fact in a kind of a funny way, the fact there are ITO business bookings are low is actually impacting the growth, slowing the growth and in a -- with our objective of driving margins up, that actually helps in terms of our margin mix because we're selling higher margin business.

You can see some of the wins that we've experienced in our health care space. One of the reasons that we're so excited about health care is that we provide services to all of the major health care areas, to the provider, those are the hospitals and doctors, to the payers, those are the insurance companies and then to the government health care where Medicaid and so on.

In our ITO -- in our provider business, we want a very significant opportunity with a New York based provider organization. In payer, we are by far the dominant leader in the payer organization. We continue to win new logos and add new services to that -- to our payer business. And government, excuse me, I'm -- in government we've talked about the opportunities that we've had in the insurance exchanges and in the MMIS world.

There will be a number of states we believe over the next year or two that will be moving to their own private exchange or their own state level exchanges, and we will continue to monitor those and get on those as we see as appropriate. We also know that there are many Medicaid opportunities, many states that are looking to upgrade their Medicaid systems over the next year. There are number out on the street right now and that will continue, and we will continue to pursue those opportunities as it makes sense.

In customer care we've had new logo wins with some of the household main technology firms. And we think that's important because as we ramp up that business, it will increase margins because it will be replacing some customer care somewhat commoditized.

In finance and accounting, we further our global expansion initiatives by signing a major contract with international automotive company. And we have -- Ursula talk about thick verticals or advantage verticals, one of those is retail and we're able to win another major logo in our ITO space in retail.

In transportation, we've had some great wins. In the Texas Department of Transportation, we're implementing a new tolling system there. In San Francisco, the Bay Area Transport Authority, we're implementing essentially a system like easy pass. We're managing the tolls over eight bridges for example including the Golden Gate Bridge. So we're seeing some great activity there.

In our other government space, we've seen some good wins in our Federal space. And a very exciting in the electronic benefits business, we've actually won the contract in New England with a number of states in New England where we are implementing a EBT system that allows things like TANF, the Temporary Assistance for Needy Families to be utilized across borders. And we think with that, that movement, we think that positions us well to establish those things nationally.

[Here you go]. The next plank in our strategy is that of global growth. Now, one of the expectations and one of the reasons for the acquisition of ACS was that -- was our belief that we could take advantage of the global account organization of Xerox, the great brand of Xerox and the global infrastructure of Xerox to promote our global growth and to accelerate it.

We've made some progress there but as Ursula said, not enough. And it's an area that we have to grow at a much faster pace. And so, we are targeting growth initiatives outside of the US We expect at least one point of our growth this year to come from expansion outside the US

And what we are doing is not only trying to leverage the Xerox infrastructure to operate more as one Xerox, but we're also targeting important strategic acquisitions outside of United States. Our priority areas are Asia, Brazil, we want to continue our expansion in Europe. We've made progress there but we want -- we need to continue that and accelerate it. And we're also focused on those businesses that have the best sort of natural global [link outreach].

If you think about transportation, Ursula talked about India and moving slowly in the traffic, the challenges that the transportation challenges in India are somewhat similar to the transportation challenges, rush hour here and the tolling challenges and so on.

So transportation is a very transportable if I can say that, sort of service that can go international. Finance and accounting, that is a horizontal service, customer care that is a horizontal service. Those are the kinds of things that we'll be focusing on for global growth.

The next plank in our five point strategy is cost transformation. Cost transformation is very important. We must have a cost competitive model. And we have significant room where we can improve our cost model.

One of the key areas that we're focused on is the area of labor. Labor is our largest expense item. And so, we are focused through a project we call project compete to continue to move work from high cost areas to low cost areas. That means in some cases moving work from the United States to a low cost country like India. It also means moving work from a high cost area in the US, New York City, to what many people would consider, I'm from Utah, and many people in New York would probably consider Utah as offshore.

So what we're doing is we're actually moving -- there's quite a cost differential if you look at big urban areas and some of the more rural areas. So we're migrating work offshore, we're also migrating from high cost to low cost within United States.

We've moved about 4,000 positions so far this year. And next year, we expect to move more than double that number. So that will help continue to shift our mix. Our goal is to shift from about 90% of our labor cost in high cost areas to 75% by 2017. And so, we'll have to continue to work that aggressively.

We have a number of other levers that we can pull in managing our cost transformation. One of them and Ursula alluded to it is this -- the idea of using partners to help eliminate risk and to lower our cost particularly in the area of systems implementation, heavy systems development. We have entered into a relationship with Cognizant.

We have about 100,000 people in the services business. Cognizant has about the same size of staff. Our 100,000 are focused primarily on service delivery. Cognizant's 100,000 are focused primarily on systems development, systems implementation. In short we think they're as good at systems implementation as we are service delivery. And so, by bringing those together, we think we can implement things more predictably at lower cost and help reduced our overall cost portfolio.

The next is the area of process and process control, process management. And we're doing a number of things to improve governance over large projects. We're implementing six sigma [lean] six sigma and using -- following certification programs like the CMMI certification which will -- we believe will help us to reduce cost by having more flawless implementations.

The next lever has to do with our people. We want to invest more in our people. We have over 2,000 business units in the services business. And so, through our learning business that we own, we are developing curriculum for those managers to help them with overall financial management, process control management and so on. So a lot of it has to do with training of our employees.

And then finally the area of innovation is critical to us. And what we have to do in innovation is not only invest smartly in those areas that can be leverage across the business, but we need to make sure and leverage the tools and productivity tools that we already have. We have a product that we call, call simplicity that we use in our customer care space.

And the customer care is very dependent on training. Training is a large cost item in customer care. Call simplicity can actually reduce training cost by 50%. So that's a significant tool for us. Well, it's being used well in certain areas but not used across the company. And so, part of that innovation is not investing anymore money, it's really investing in implementing that across the Board.

The final piece in our strategy is that of analytics. Analytics is on everybody's mind, we talk about -- we hear about big data and data analytics all the time. We are not particularly focused on the building of new analytics engines. We have some great tools. I mention our Midas platform, but we are focused more on the $4.5 billion market that is called analytics enabled BPO. 85% of our customers are saying that in the next two to three years, they will be candidates for analytics based BPO.

So that's -- our ability to use data analytics, coupled with the tremendous data that we have, if you think about it, we process hundreds of millions of transactions. And we're able through this analytic strategy to take the best in class analytics engines and apply it to the data that we have.

In each of our segments have been challenged to implement analytics within their individual groups, in customer care I mentioned the work that we're doing with WBS that is actually moving us significantly forward in customer care. In health care we have our Midas program where we provide analytics support to 1,800 hospitals that helps them to manage care, to improve their outcomes and so on.

In transportation, we have, as an example, we've taken our parking data. It seems like pretty boring informational tickets and parking need or information. We were able to take that data, tens of millions of transactions and actually apply analytics to that information and be produce for the customer a dynamic pricing model, that was a tremendous advantage for the customers.

We believe that if you want to think about it, the transactions we have are like the ore that comes into the mill and then we are able to mind that ore with our analytics capability and capture gold that is really higher value for our customers. And that is one of the key reasons that we think we can drive additional margin expansion through analytics.

In summary, we're executing our five plank strategy. [That's] managing our portfolio, mixing up for margin improvement, global growth, cost, cost reduction, operational excellence and analytics. Our goal for the next year is to improve the margins by 50 basis points at least and then continue on that path until we have reach the higher end of our margin aspirations and revenue.

So thank you very much. And I have another presentation. I think we're going to run a commercial real quick. No, no commercial? If Ursula says, no commercial I agree. I meant -- what I meant to say is there's no commercial.

Government -- excuse me, health care is an exciting market for us. I've talk some about it. The reason we wanted to highlight it here is that health care is important to us for two reasons. Number one, it is a large market with very healthy growth, both on the BPO side and the ITO side.

And more importantly, we are actually positioned to serve all of the major sectors in health care. If you look at government health, we've already talk about our Medicaid, to help insurance exchanges that we participate in, the pharmacy benefits systems that we have implemented in many states around the country and the health information exchanges that have just come live this year.

In our payer business, we are a very large BPO provider, transactional business process provider. And we also have a strong offering in our CMS area. And of course our call center customer care, we've expanded into customer care significantly in the payer space. In provider we have a strong hosting capability and we also have strong consulting skills and analytic skills in the area of Midas that I spoke about.

And then as it relates to the employer, there will be -- you'll see accelerated movement in the areas of private exchanges. And we have through our Buck organization, a very powerful private exchange.

If you look at the growth of these and what they represent of our portfolio, you can see that government health care is 40% of our revenue. It had above average growth, but it had low margins. And we've see it as an area of opportunity for margin expansion.

In payer, it's 36%. So, pretty balanced. Our growth is above average and our margins are in lined with our overall objectives. In provider, growth about average but our margins primarily because of analytics and higher value services that we offer is higher margin. And we'll see how the private exchanges play out.

There's a lot of talk about the Affordable Care Act. And let me take just a second to talk about what we think are the key components of the Affordable Care Act and how it's impacting the health care market. First of all, I want to say that it's not -- it hasn't all played out.

So there aren't answers to everything. But these are some of the key components that we see as part of the Affordable Care Act. One is it's all about access to coverage, more people on Medicaid roles, more people having access to health care insurance through exchanges and so on. It's also about cost containment and new cost models. Ursula talk about the shift from fee for service to manage care.

That's a significant change, that completely changes the orientation of the provider community because instead of being interested in how many procedures they perform, they're now focused on how healthy are you? And what can I do to -- that's why wellness programs and these other things become an important component of managed care.

And then there's the whole aspect of public health. There's the public health trust fund that's been established to address public health issues like smoking and those kinds of things. It also has a number of preventive care programs. And one area that we feel really strongly about which is eligibility. We have tremendous expertise in eligibility and we think that that is going to play a big role as Affordable Care is rolled out and adopted.

You can see that we feel like we're very well aligned with the moves that the market is making. The shifts from -- to the consumer model, away from the group model to the consumer model. We have as we set our Medicaid platform, our BPO platforms, the insurance exchanges and so forth. There is -- as we move into managed care, that will be much more of a risk model, the way that -- the way that payments are made will be based more on risk and outcomes based. And then the idea of increasing the quality of care, our Midas tool is a great product that helps hospitals to refine their care processes and so forth.

So we believe that we are very well aligned with the major areas of health care and the major shifts that are happening in the health care industry. We have invested significantly in organic growth by investing in platforms. I talked about our net MMIS platform, analytics, we in our part a research facility we are developing -- I love this thing, it's called metal detector, and it is a fraud and abuse analytics tool that will help us to scan through all of these claims, all this claims data to spot -- to pin point fraud and abuse.

We've also done a lot in the area of business process management. In our M&A area, we've required PMS which moved us into the life sciences area in 2010, [Preneed health] which helps analyze patient's condition. And then the breakaway group that actually offers training and present information to the health care giver at the point where they need that healthcare -- that information to help actually guide the treatment that they provide. And then, our learned something is a new product in digital education.

So, we're investing in innovation. We're investing through M&A and we believe we're very well positioned to take advantage of this wonderful, great growth opportunity in healthcare. So, with that, thank you very much and I'll now introduce Kathy Mikells.

(VIDEO PLAYING)

Kathy Mikells - *Xerox Corporation - EVP, CFO*

So, I'll start by saying that, Lynn didn't two commercials, because I insisted that I got one commercial. I have a lot of financial information to cover today. So, why don't we go ahead and get started. I'm going to spend a little bit of time first just talking about the overall business dynamics and the business models. So, both are technology segment and our services segment.

And I'm going to walk through where we expect to end 2013 and that will be the platform for talking about our guidance for 2014. I'll cover both revenue guidance, earnings guidance, EPS, cash flow, capital structure, capital allocation. So we'll have a good conversation in walking through the details of what we expect for 2014.

So first, let's talk about the business models. Overall for services, it's now accounting for about 56% of our total revenue. As we looked out to 2014, we expect mid-single digit close from services and segment margin between 10% and 11%.

In terms of what's driving the overall portfolio dynamics, BPO accounts for about 60% of total services revenue. And within BPO, about two-thirds of the portfolio is already operating at margins in excess of 10%. So, we start with a pretty solid foundation.

We're currently experiencing a little bit of margin pressure which Lynn talks about a little bit, mainly coming from the downsizing of our student loan business as well as some other cost that we're incurring and standing up some of our new health care platforms.

As we looked at our overall matrix, we've got really positive longer term matrix in terms of revenue growth. We've seen on a year-to-date basis, our total signings go up 30%, new business signings are up 5% and we've had a very strong renewal rate, a little bit above our 85% to 90% overall target rate. So, as we looked towards 2014, I think, we're really well positioned in terms of top line recovery.

In turning to document technology, overall revenue is now about 40% of total Xerox. When we look out to 2014, we're expecting mid-single digit declines in revenue in document technology, pretty consistent with what we've been experiencing recently. We're expecting in 2014 to be solidly within our overall target for margin, 9% to 11%.

In terms of some of the overall dynamics that are driving technology, we continue to see a lot of pressure coming from the reduction in black and white, particularly at the high end of the range. Overall, that's becoming a smaller and smaller part of our total business, down to 8% of the total revenues currently.

We're also continuing to invest a lot in color growth and that's impart creating a good offset to the decline that we're seeing especially at the high end production lines. Armando mentioned that we recently acquired a company called Impika which brings liquid jet ink technology into our overall bracket communication portfolio enabling yet another area of growth for us.

And then the last thing that I'll mention is we continue to see the overall shift towards services, that's a real positive for Xerox. But within our technology segment that causes about a two point shift overall in revenue. And so, we see the decline in technology but on the offset to that, we see the growth in services.

So overall, we looked at document technology, we continue to invest in areas of growth, of both color, high end production, especially in graphic communication. And that's enabling us to maintain about a mid- single digit decline overall.

So let's dive a little bit more deeply into our services segment. Hopefully, this picture looks familiar to folks. It's a bubble chart where we show growth rate against margin. The first thing that I point out is, this is a perspective pictures. So you should really be thinking about 2014 and beyond as you stir at this picture.

You can see here that we're really looking to accelerate the growth of our higher margin businesses. We've talked a little bit this year about margin mix really being a headwind for us and we're very focus on making margin mix a tail win for us as we move forward.

The second thing that I point out is that we separated student loan as a bubble on the chart. So, I pull that out of the financial services sector and federal government. And so, you can see it here on the top last corner of the page. The only reason I wanted to highlight that is it's causing both revenue and margin pressure.

So, as we look forward to 2014, we expect a little over a point of revenue pressure coming from the reduction of our student loan business and about 25 basis points of margin pressure. I'm, now, going to [caution] you to look kind of towards the bottom of the page in the center, and I'm going to talk about a couple different bullet points which would have change relative to last year.

So, first of all, we're seeing ITO growth slow. We had seen ITO growth in the double digit land mainly coming off a big [mango] deals that we had signed in 2011. More recently signings have been a lot slower. And so, we're seeing the growth rate in ITO slow compared to what we would have talked about last year. Similarly we're seeing growth rate slow in customer care. That's the result of us laughing in acquisition that we did last year. So, Lynn, had talked about WDS, that's in the customer care sector, we're now laughing that acquisition, and as a result our growth rate are slowing.

If you look, there's another yellow bubble close to the two that I just mentioned, and that's us pulling out our MMIS in government healthcare businesses. I pulled those out just to show you that those businesses are currently experiencing margin pressure as we're standing up our new MMIS platform as well as participating in new health insurance exchanges and as a result, in the current period we're seeing pressure on margin. As we look forward, we expect we're going to continue to gain scale as well as efficiency in productivity, so longer term might actually expect to see the margins improve in that business.

I'm, now, going to focus on some of the bubbles that are in the top right hand part of the page. So, you can that our health care payer and provider businesses continue to be very strong both in terms of growth and margin. Those are really aided by innovations that we bring to the table as well as strong platforms that we have in this space. Lynn, had mentioned our Midas data analytics which is part of innovation. We also have something we called digital nurse which helps for health care providers in the hospital space to be more efficient in delivery.

Another sweet spot for us is transportation. That's a place where we bring great innovations to the table with things like smart tolling and smart parking. It's also a business that's pretty naturally portable internationally and leverage a strong back office platform that we have which we call Vector. And so, that's the business we'll continue to focus on both in terms of organic growth, international growth, as well as, inorganic growth.

So, as we look at this chart, overall, I think, what you should take away from the page is, we've got a number of diversified businesses. We're very focus on improving our mix overall in terms of margin. We're going to look to grow our higher margin businesses both organically by investing more in innovation, by investing in terms of gearing up our own sales engine, and then inorganically by strategically targeting more of our acquisitions to these businesses.

One of the great things about our services business is it has a really strong annuity driven model. We start any given year with about 91% of our total revenues under contract and just a small amount of revenue really based on year-to-year project base work.

Now the first thing that we face in any given year we have a number of contracts that come up for renewal. Our contracts' average terms right now is running between three and a half to four years so if you combine that with an expected renewal rate of about 85% to 90% we'd expect to see about a three to four percentage point headwind overall in revenue just as a results of contracts that are coming up for renewal.

We also experience price pressure every year. That comes from two places so first we think contracts that we have were typically committing to some level of productivity improvement or price reduction annually in those contracts and then obviously when we have contracts that are coming up for renewal, we would expect that we're giving some discount and looking to extend those contracts. So overall we'd expect that price is another headwind of about two to three percentage points in revenue.

The flipside of that is what we're bringing on board in any given year. We'd expect that to more than offset the revenue pressure that we face. The biggest amount of revenue uplift that we see is from revenue that's coming from contracts that we signed in the prior year. We'd expect that to be anywhere between eight to 10 points.

We'd also expect to get some level of uplift from contracts that we're signing in the current year although that as you can imagine is smaller. We'd expect that to be about three to four points of improvement.

And finally, acquisition growth is the key part of our overall strategy. We'd expect in any given year to get an uplift of one to three percentage points of revenue growth from acquisitions. As Lynn mentioned, this year in services we haven't seen quite a level of acquisition activity that we had hoped.

In the fourth quarter, we're literally getting a no revenue growth out of acquisition activity but in getting to our overall model of mid to high single digit revenue growth, we would expect to see more acquisition growth as a part of that and as we look into 2014, I'd say our pipeline is stronger and we're more strategically focused in the things we're going after which should enable us to generate synergies and be a bit more price competitive. So we're feeling pretty good in terms of gearing up the machine for a greater level of acquisition growth as we go forward.

Overall service metrics have generally been pretty good. At the top of the page you can see what we're seeing in terms of pipeline growth. So this is our new sales activity which is in the beginning of the process. Overall year-to-date our pipeline is up 5%.

We've had pretty good signings growth and you can see here in new businesses signings is up 5%. That's in pretty sharp contrast to what we experienced in 2012. So 2011, new business signings was a pretty big year as we were coming off the first year subsequent to the acquisitions with a lot of the new business signings really focused on synergies especially in the ITO space.

But as you can see this year, year-to-date new business signings have really come back and signings in total both renewals as well as new business year-to-date are up 30%. You can see our renewal rate has also been trending really positively so we've been targeting 85% to 90% year-to-date, our renewal rate is at 91%.

So as we look forward to 2014 I'd say from a revenue picture perspective, you know, all the metrics are pretty positive. The one weak point that we've had in our overall metrics is segment margin. When we started the year we had an expectation of a modest improvement in segment margin year-over-year but as you can see year-to-date, we're running at 9.8%.

So as I look out to say, you know, what are we expecting for the full year, we're expecting we're going to end up between 9.8% and 10%. I talked a little bit overall about some of the margin pressures that we're seeing. We had a known margin pressure in terms of the overall reduction of the student loan business.

We've clearly had to spend more money than we originally expected in standing up some of our new platforms with the implementation of NMIS in New Hampshire as well as Alaska, as well as our participation in the health information exchange in Nevada and our support of other state exchanges that are being stood up.

Overall as we look to 2014 we're going to have a really keen focus on productivity because if you kind o cut through everything at the end of the day we didn't get quite enough productivity gain in a year to really offset the margin headwinds that we were facing and as Lynn talked about and I will discuss later when I get to the guidance for 2014 productivity is a real key part of our drive to margin improvements and services.

So now I'm going to switch to document technology. What I've tried to lay out here is how we think about the overall revenue model for document technology. We start off by looking at our overall composition of revenue. We've got about 78% annuity revenue within document technology and about 30% revenue coming from equipment sales in any given year.

That equipment sale revenue is actually a little bit more typical as a result it has a little bit more variation in any given year. It's really wedded to the level of install growth that we're seeing, you know, particularly with color offsetting the decline in black and white and it's negatively impacted by pricing pressure in any given year between 5% to 10%.

So we're really looking for install growth to help offset that pricing pressure and overall, our expectation would be for technology total revenue, equipment sales would be in a good year flat and, you know, when we're seeing declines, we'd see declines up to 3% of total revenue.

Our annuity revenue is a little bit more stable. It's less cyclical overall. The majority of that is tied into contracts and it's really driven by page volumes. So we're seeing a decline as you would expect in black and white, page volume partially offset by an increasing color page volume and so overall we'd expect annuity revenue to be coming down impacting total revenue by one to two points.

The third part here that you see on the page I've colored a little bit differently mainly to point out that while it's a negative to our document technology segment, it's an overall positive for Xerox and that is document outsourcing growth. So the shift of the industry and the shift at Xerox towards document outsourcing and management services actually causes about a two point revenue pressure for our document technology segment that revenue shows up within our services segment. It's an area of strength for Xerox.

The market is going, the shift is continuing. We're actually seeing double digit growth with our partner plant services and managed print services overall get us closer to the customer and create a natural nexus for us to leverage into, workflow automation and workflow management which is a great I say sister partnership, you know, with BPO. And so we really see that as an area of synergy and an area of growth for us overall.

So if you look at the total model and what we've been seeing most recently, you know, we would expect that continuing to invest in areas of growth, graphic communication color overall will help us to maintain pretty moderate declines within the technology segment.

Overall metrics for technology has been pretty strong this year. If you start by looking at our revenue trends year-to-date we're down about 6%. If I combine that with the document outsourcing business, the total decline would drop to 3%. So we're really seeing a stabilization within document technology from where we started at the beginning of the year and we're really pleased by that.

Our install growth continues to be pretty strong especially with regard to color and overall we continue to really manage this business strongly for profitability and cash flow. You can see that our year-to-date margins in the business are 10.6% and so we've got this range of 9% to 11% margins that we're looking to manage the business in. For the full year we really expect to be at the high-end of that range. We continue to manage our cost from this business really well which is what's critical in ensuring that we have strong profitability.

So now I'm going to set the stage for 2014 by talking about 2013 expectation. So I'm going to start with the top line. We expect our overall revenues to decline by about 1%. That's just the straight math when you look at what we've experienced year-to-date and the color that we gave in terms of our expectations for the fourth quarter.

Our adjusted EPS for the fourth quarter is expected to be $0.28 to $0.30. If I add that with the first three quarters of the year that puts us at a full year expectation of $1.08 to $1.10 a share. We continue to see very good cash flow performance and we're expecting that we're going to come in towards the higher end of our range of $2.1 billion to $2.4 billion for the year. That will also put us at a higher end of the range for free cash flow between $1.6 billion to $1.9 billion

And finally we've seen acquisitions come in a little lighter than we had expected on a year-to-date basis. We've done $155 million in acquisitions so it's going to be a stretch for us to even to get to the low end of the target depending on what we can get done before year-end to the extent we don't incrementally get much done before year-end. I'd expect we'd be more active in the first quarter of next year.

But the combination of strong cash flow and a little bit lighter on acquisition has freed up more cash for other uses and we've in fact increased our share repurchase program and expect that we'll repurchase over 600 million in shares this year. If you combine that with the 300 million that we expect in overall dividend payouts we'll end up with a little light of a billion dollars being returned to our shareholders this year.

So I'm going to start with an overview of 2014 guidance and then I'm going to get in to this a lot more detail. So starting with the top line, we expect overall revenue to be flat to up 2%. That's going to be driven by about mid single digit increases and services, you know, with an offset of mod single digit declines in technology.

Overall we expect adjusted EPS to come in at $1.10 to $1.16. That's going to be driven by margin improvement and a little bit of offset which I'll talk about a little later in terms of tax rate and some one-off items.

Cash flow from operations is expected to come in at $1.8 billion to $2.0 billion. At about the same level of CapEx, we expect our free cash flow to be $1.3 billion to $1.5 billion. We're not expecting to make any incremental debt reductions in 2014. As a result, we expect to use our free cash flow in terms of capital allocations for share repurchases, dividends and acquisitions which I'll cover in more detail later on in the presentation.

Importantly, in order to get to expand at profitability we really need to see our services margin improved. What I'm walking through on this page is how we expect to get there. So you can see I'm starting with 2013 expectation to services margin between 9.8% and 10.0%.

Overall, the first thing that we have to overcome in any given year and certainly in 2014 is what we see just in terms of the price declines running through overall to the impact on margins. So I talked about that when I walked through the revenue dynamics for services that flows through to a margin dynamic for services.

In addition to price declines, we have to offset the friction cost associated with lost contracts and I'm pointing out that the decline in the student loan business which is a particularly high margin business is expected to have a negative impact in 2014 of 25 basis points.

We then have big offsets to how we overcome basically those headwinds. So first, you know, we continue to sort of ramp up contracts that we had won in past years and get more productivity from those contracts and we expect to get an uplift in terms of a positive mix shift on a go-forward basis. But the biggest overall uplift we expect to get in terms of margin comes from productivity improvement.

I'm going to separate productivity improvement into two buckets. So we have what I would call normal course of business need for productivity improvement largely to offset price decline. That really comes from us taking over people's business processes, getting more efficient in terms of that workflow, bringing more tools to the table in automation and how we handle that workflow. And so it's really managing that workflow at a lower cost.

In addition to that, we have a big initiative to push our overall labor footprint more towards lower cost delivery in lower cost countries. Lynn mentioned in his presentation we start out today with about 90% of our total labor cost in services being in high cost countries. We intend to change that mix to about 75% by 2017 and so there's a big push for us to move that mix in 2014 and it's a big part of the way for how we expect to achieve our margin improvement.

So overall if you look at all the different moving parts we expect to get a margin improvement in services in 2014 of at least 50 basis points and this is how we intend to get there. EPS. So this is showing you a similar bridge for where we expect to end the year in 2014 for EPS and how we expect to achieve EPS growth in 2014.

We expect to end the year at $1.08 to $1.10 a share EPS. The biggest contribution to our EPS improvement is going to come from better performance from our segments. Depending on where we end up on our revenue guidance, we'd expect to get up to $0.02 improvement in earnings per share coming from revenue growth.

We expect to get about $0.03 of improvement in EPS coming from an expansion overall in operating margins with the overwhelming majority of that coming from better margins within our services segment. We're continuing to repurchase our shares. As a result, we expect to see lower share counts. Lower share count should give us an uplift of about $0.03 to $0.04 on EPS.

So now on the other side of that, we expect a little higher tax rate year-over-year and a number of moving parts in terms of I'll call it other one-off item.

In 2013 the one-off items that we saw were gains from our financing receivable sales, gains from sale of real estate assets and then finally in the first quarter we had a $40 million litigation reserved reversal that was clearly a one-time item.

On the other side of that as I look out to 2014 we're actually expecting our pension expense to come down. I'm going to walk you through that in more detail in a couple of slides. And so that's a partial offset but net-et between a little higher tax rate and fewer positive one-offs, we'd expect to give up about $0.03 to $0.04 in EPS and so overall we're expecting our EPS to increase to $1.10 to $1.16.

Cash flow. I feel like I've been talking a lot about cash flow over the last couple of weeks so I'm going to walk you through cash flow and quite a bit of detail to make sure that everybody understands what's going on.

So first really importantly, we are focused on driving improvements in underlying cash flow. So that's the first purple bars that you see on the page. We get improvements in underlying cash flow by driving earnings improvement and so here you see an expectation of EBITDA improvement year-over-year and in driving overall better working capital management. Better working capital management is going to come from a couple of different areas so first the disproportion and amount of this should come from services.

We are investing less in 2014 in what I'll call customer facing platform development than we have in the past years. So we are standing up platforms and we're seeing the income statement expenses associated with that. But we are investing less than actually developing those platforms so that should actually help overall cash flow for services.

We're also continuing mainly on the services side of the house to continue to negotiate with vendors to get longer payment terms and so I'm expecting a little bit more progress will be made there. We also continue to work on our overall receivables aging and how much money we have tied up in receivables with a keen focus on actually accelerating collections of receivables that are just past you, you know, versus only really focusing our collection efforts on receivables that are long past due.

I also expect to get a little bit of pick up in terms of working capital on the technology side of the house. That's really keenly focused on improving our overall inventory efficiency. And as you can see here, we're not expecting as we look forward to 2014 to have any finance receivable sales. As a result, our overall cash flow is expected to be at $1.8 billion to $2 billion.

I'm going to talk a little bit more about overall cash flow dynamics and specifically the impact of the finance receivable sales just so that you understand both that impacts in 2014 as well as what I expect it's going to look like beyond 2014.

So you can see here at the very bottom of this page we're expecting improvements in our overall underlying cash flow. That's our operating cash flow removing the impact of forward receivable sales. And so we expect for that to improve to $2.2 billion to $2.4 billion next year.

You can see that in the past couple of years 2012 and 2013 we did a fair amount of receivable sales which help to further bolster our cash flow. We used that money in our overall capital allocation objectives specifically to repurchase additional shares.

As I look to 2014, the reason that we're not expecting to do any forward receivable sales is the economics of those transactions are deteriorating. We were pretty opportunistic in 2012 and 2013 in terms of, you know, having transactions that drove pretty positive economics. The combination of, you know, market dynamics and the market shifting as well as our overall portfolio becoming much more concentrated and more complicated service-oriented contracts has caused the overall economics of the transactions to deteriorate. As a result, we're not planning for any transactions in 2014.

We don't have any inflows from the transactions and what we will see is an expectation of about $400 million in reduced collection as a result of the past transactions that we executed in 2012 and 2013.

Importantly as I look forward beyond 2014 I'd expect the impact from the finance receivable sales that we've done to diminish. So our portfolio right, will start to build up and the impact from the diminished collections will actually be reduced. So the biggest impact that we'll see is in 2014 and the impact beyond that should diminish.

And then the last thing that I'd like to note which I'll touch on in the next slide is forward receivable sales activity actually takes up our debt capacity. And so as we basically reduce that activity, we'll free up that capacity or conversely we won't cause the same need to pay down debt as we were when we were shrinking our finance receivable base.

If you look at our overall capital structure we expect to end 2013 with about $7.8 billion in debt. What I show you here at the top of the page is that the overwhelming majority of our debt, it actually supports our finance receivable, our financing business and our finance receivable portfolio. So as our finance receivables shrink and we get seven to one leverage on that finance receivable base, we effectively mean reduce our overall debt load.

And so as we line down the activity of accelerating shrinking that portfolio we won't have the same need to be repay debt.

If you look overall, we're really trying to manage to a leverage ratio and in 2013 our adjusted leverage ratio so this is an adjusted EBITDA in an adjusted overall debt level has been at about 2.7 to 2.9 times. And so we're trying to manage that to the low end of that range.

And as a result of not planning any forward receivable sales in 2014 and the debt reductions that we made in 2013 we're not expecting a need to pay down debt in 2014. And so that really freeze up our ability to use our free cash flow for other capital allocation needs.

Pension is another area of cash news and also an area of some volatility in terms of our expense. We actually started this year with an expectation that our pension expense was going to come down. So we have frozen all of our pension plans. They were either frozen at the beginning of the year or they'll be frozen during this year. And as a result we expect that we were going to actually see a decline in overall pension expense as we shift towards to define the contribution rather than define benefit overall program.

The reason we're actually seeing an increase rather than a reduction has to do with what's going on in discount rates. So our pension plan, our biggest plan, our US plan has a lump sum benefit embedded in it. So people can either choose to take a lump sum or they can choose to take an annuity.

The way the program works is every year in August the rates -- the discount rates are determined based on prevailing interest rates in the market. That discount rate is then applicable for the following year and we communicate that to the folks who participate in the plan in early October.

This year if you were following interest rates, interest rates were, you know, kind of heading up through the course of the summer and then they came back down in September, you know, when basically the Fed kind of changed this overall guidance with respect to what they were doing in the bond purchase plan.

So when we look at printing our discount rate we ended up printing a rate that's about 90 basis points higher, right? And so our plan participants know that the discount rate that will be used for their lump sums is going to go up in 2014. But they get to use the 2013 lower discount rates through the end of the year. As a result we're seeing a pick up in activity as people rightfully look to kind of cash in their lump sum, you know, at the lower rather than a higher discount rate.

I talked a little bit about that on our third quarter conference call because it's causing about $0.02 headwind on EPS on the fourth quarter as we see these, you know, settlements expenses really spike on us in the fourth quarter.

Now the flipside of that coin is if everybody is kind of coming in to cash out while the discount rate is low this year, we'd actually expect a lower level of pension settlements expense in 2014. And so that's exactly what we're planning for. So we expect this is going to be a positive for us next year.

As we switch and look at the overall pension funding, you can see that our pension funding's come down pretty significantly beginning in 2013. This is mainly the result of the change in legislation that occurred in 2012 and was applicable beginning in 2013. As we look out to 2014 we're expecting to see pension funding, you know, at about the same level.

Dividends. So overall I mentioned earlier we expect to spend about $300 million a year in dividends that's about 20% of our overall free cash flow. Our quarterly dividend went up by about 35% earlier this year to $5.75 so our annual dividend right now over the course of the year is $0.23.

That change was applicable to the dividend payment beginning this past April. As we look out into the future our expectation is that we'll gradually increase our dividend over time that's really supported by a strong annuity driven cash flows as well as our ongoing share repurchase program.

We're going to talk about our 2014 dividend at our board meeting in December and so when we have our earnings call in January, we should be in a better position to give you specific guidance in terms of where our dividend is going.

So to wrap up all the different components of capital allocation, we're expecting $1.3 billion to $1.5 billion in free cash flow in 2014. I mentioned we're not expecting to use any of that free cash flow to repay debt. As the result of that, it's really available for other allocation.

We're expecting about $300 million to be spent on our dividends. We're expecting, you know, not caught up between $300 million and $500 million in acquisitions so less than $500 million showed on the page. We've obviously been late on acquisitions for the last couple of years. It's difficult to predict just how successful we're going to be on acquisitions but we certainly anticipate that we're going to have a little bit of a pick up of that activity.

And then finally we're expecting at least $500 million to be spent on share repurchases. You can see I have a slice of this pie that's called opportunistic $200 million to the extent we hit the upper end of our cash flow guidance, right? We would then have a little bit more cash available for us to, you know, use for this other uses.

If you look at both dividends and share repurchases, we're expecting over $800 million of cash to be returned to shareholders in 2014. That's over 50% of our free cash flows so, you know, we continue to have an overall balanced approach and clearly part of our overall strategy is to generate returns to our shareholders in part by giving capital back to them.

So overall in closing we're hoping that you'll take a couple of key messages away from our presentation today. Clearly we're looking to manage our overall portfolio businesses to improve performance across the board and to improve our overall mix. Cross savings continues to be a really important part of our business and in 2014 we're clearly looking for an enhancement in overall cost savings and productivity to drive an expansion of services margin with cost savings initiatives continuing to enable us to have strong margins and profitability within our technology segment.

We're going to continue to invest in areas of strength. That means continued investments in innovation. It means our M&A activities targeted towards areas where we have differentiation and competitive advantage to continue to grow these businesses.

And finally, we're looking to generate very strong returns to shareholders through both profit expansion as well as strong cash flow which enables us to have a balanced overall approach to capital allocation including a significant amount of capital return to our shareholders.

And so with that, we're going to end our presentation and move in to the Q&A session. I'm going to have Ursula and Armando and Lynn come up on the stage and when we complete the Q&A session, we're then going to head to lunch so please join us.

QUESTIONS AND ANSWERS

Ursula Burns - *Xerox Corporation - Chairman, CEO*

So we have mike, people. So raise your hands I'll come to you. Yes. Thank you. Please Shannon.

Shannon Cross - *Cross Research - Analyst*

Okay. Hi. Oh, Shannon Cross, Cross Research. My first question is on services. I guess, you know, we're looking at a year where the services margin was lighter than anticipated and now you're looking forward a year, and anticipating about a 50 basis point improvement. As you go through the various drivers of that improvement, can you talk a bit about your level of confidence?

How much of this you control versus -- I mean I would assume the offshoring can somewhat be controlled but I know that some of your contracts require, you know, sort of domestic headcount in that. So how much of it do you think is in your control? How confident are you given, you know, we had obviously a bit of a miss relative to expectations?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

I'll start and then either Lynn or Kathy can jump in. The biggest contributor as Kathy said in her walk is going to be this productivity move and as she said, the productivity move is a major piece of that -- at least half of that is driven by this move to re-site people. We've gone through -- Lynn has gone through the other work in great details to understand what's contractually required to stay on shore because we do have a little bit different business than some of our competitors.

A lot of our contracts that then would -- the government surrounding states require the labor to stay so we've gone through a fair amount of detail to determine what's able to move and we are on the path to be able to move that.

So we're fairly confident. It is complicated though to do this. I think that we've built in enough buffer to be able to achieve it. It's the biggest contributor that we have.

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

So the portfolio, you know, how we manage the portfolio. We have a lot of leverage in terms of margin based on what we do with portfolio. We talked a little bit about divestitures. Okay. You know, some businesses are significantly below the range and so we need to look at those and be prudent about that.

I think the innovation we have those tools as I said, you know, are called simplicity tool. We have it, we know it, we just have to implement it. So that is a large part under our control. Some of the pricing dynamics or things that we wouldn't have as much control in terms of new business and so on.

Shannon Cross - *Cross Research - Analyst*

Great. I just had one follow up question. Looking at your cash flow or your cash usage chart, you have the $200 million that you said is sort of at the higher end of the range. And then, you know, you've only got about $300 million if you get that this year in terms of acquisition. So there's almost $400 million of opportunistic cash flow if all these things come through. Is the preference to go to share repurchase which would almost double your share purchase next year versus what you put in place?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

That would be a preference. If we -- if that all -- if that math worked out the way that you said it. We would prefer -- our ultimate preference is to actually use the money to acquire as we've laid out in the charts but I think that what Kathy talked about and I'll answer this before it's even asked about this whole acquisition dynamic.

We are active. So we -- we have people bring to us potential properties and we have our people looking for properties as well. And so it's not that we've been sitting down and saying, you know, let's not look. We have been active and I think that what Kathy said earlier we have a pipeline that's richer now than it was in the beginning of the year.

But bringing these things home without being impudent in how we engage here, meaning paying for the right amount of money and getting the right fit meeting the criteria that we have has narrowed the field of acquisitions versus what ACS would have done before they were part of Xerox. And -- but I think that we have a good pipeline now and we should be able to bring some of them home.

I think it's pretty unlikely that we'll bring them home by the end -- before the end of the year. But we have -- but we're working on them so I'm hoping if we don't get them this year, we'll get them -- a couple of them that we're working on, next year so.

Keith Bachman - *BMO Capital Markets - Analyst*

I was just handed the mike so I guess that's me. Keith Bachman from BMO. Ursula, I wanted to broaden out Shannon's question about -- if I think about where Xerox is, the problem has been execution and I think your multiple reflects that. So Lynn's chart I think demonstrates that. It's not that you miss margins this year, you missed margins for I think three straight years.

And then also if I think about, you know, as part of that, the headcount transition, it seems like Xerox was late in identifying a headcount transition and, you know, you're also identifying InkJet as a key market. It seems like that's, you know, a little bit late too. There's been other focus -- move more aggressively in that.

So I guess just broadening out in execution. I think one of the questions that investors have or we hear a lot about is how do you improve execution? What investors take from this room? And it's -- my mind people or process. And so how do you convince investors that Xerox execution will improve over the last history? And the second part of the question is you've identified an M&A which I certainly agree with. It's a little bit of both sides though.

How do you condition yourself to make sure that you're being -- you're laying out a strategy that certainly -- I don't want to say requires M&A but benefits from M&A, how do you convince investors as part of the execution stream that you will indeed be prudent and not take a bite of the apple if you will that decreases shareholder value through a high purchase price, high risk, however you want to think about that?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

So I'll answer the second part of the question and a part of the first part and then I'll leave the rest of it to the team. And the second part of the question on acquisitions and how are we careful to not overdo it and not do something risky. I think that we've been blamed, we've been blamed for being just that, being a little bit too prudent in our acquisition look because we've been relatively slow at it.

I actually think that we're being -- we're fairly balanced here. We understand very well because we live with some of those. We acquire lots of companies with ACS being one of them and we know what happens when it doesn't happen well. We know exactly the impact that it -- that it has on the business when it doesn't go well.

So we are prudent. We'll remain prudent for sure and it may slow us down a bit but I think at the end of the day on average a better place to be than to kind of lean over our skis, and lose control. It's slower than I would like but it's not -- I'll say it again, it's not slow because we haven't been looking. It's slow because we have a particular universe that's of high use to us and we want to make sure that we stick to that particular universe but not being so picky that we -- that we actually move ourselves out of the market. So I think that we have the right balance there, and board helps us. We clearly have a set of criteria that helps us as well. We have a committee that looks at all acquisitions.

So I think that we have that part pretty well-balanced. And at the beginning part of your question, you're right. Execution, operational excellence, this idea of being able to fire on every single cylinder well is something that we haven't gone broadly. We do it in places very well and this is an area that we have a lot of focus on.

The first year that we bought ACS in, we had an issue with renewals if you remember. And we actually just, you know, went down and literally drove a level of discipline through this whole renewal thing that we -- so that we can get it under control.

And when we fist bought ACS and we kind of kept them away and basically said kind of go do your thing, we don't want to break it too much, we don't want to change your business model. We got a size now that -- more central control not by us only but by ACS -- by the leadership of ACS is something that is absolutely required. It will -- has and will change the model a bit. It's a little bit free form before and it's now significantly more centralized. And we have to make sure that we keep that balance right but it is definitely going to be a heavier hand. It is -- has already been a heavier hand towards the center.

The last piece and by the time I turn it over to you, you won't have anything to say. The last of the piece is talent. We're bringing people in, in places that we have weaknesses or gaps or we have proven that we've tried it with an individual and it's not working. We're bringing people in to make sure that we have the right talent to drive to fruition and to end where we want it to be not only in ACS but also in the corporate center. Clearly technology business I think we have a good foundation there and we're moving people across by the way. A lot of people from technology to services and vice versa to make sure we can hone it down.

The last thing you talked about was on InkJet. You're wrong. I think we're at the right point in InkJet. We didn't buy too late at all, at all. We actually -- the market, you know, we can keep playing in this market. The market is slow to come as you can see. We've been talking about this transition for a long time. It's starting to come up now a little bit and I think that we've invested at the right time.

We have technologies that we've engaged in, in our research group and we have solid [inaudible] InkJet. And now we have brought on board at the right time at the right price with the right skill level something that we can leverage on and a go-forward basis. So I think the InkJet play is not a - is not a misstep at all. I think it's actually the right timing so. I'm sorry. You didn't have to say anything.

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

And I know they won't say anything.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

I mean you can if you like but I think I had them all. I hope I got them all, Keith.

Ben Reitzes - *Barclays Capital - Analyst*

Good morning. Ben Reitzes -- boy, that Keith asked the questions.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Ben. Oh, there you are.

Ben Reitzes - *Barclays Capital - Analyst*

I wanted to just ask two things; one thing is a clarification and one is a big picture. Kathy, I appreciate the cash flow information that you portrayed. With regard to financing receivables, there's always been a runoff as well from the old loans that -- and because sales have been declining of high end equipment, it's always throwing off cash. Is that a meaningful number anymore in 2014 and '15 as well?

I believe everything you talked about was just the sale of receivables, but is that number of the loan runoff become a less meaningful number? And actually you said you're going to grow the portfolio, so then that would mean that it's a cash use. So I was wondering if you clarify that part.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Sure. So we're going to replenish the portfolio as opposed to grow the portfolio, because the overall technology business is declining and that's what's caused the natural runoff. I'd certainly say as I look to 2014, that impact of the runoff is moderating so it's not a really big contributor to 2014 overall cash flow.

I focused on the forward receivable sales because that's a much larger factor both in terms of 2013 and in terms of them not doing that activity or not planning to do that activity in 2014.

Ben Reitzes - *Barclays Capital - Analyst*

So it's a modest positive to cash flow, but it doesn't become a negative which could actually -- could also be a good thing? If it became a negative then it would mean you're growing your portfolios?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Yes. I'm not actually expecting that it's going to contribute all to 2014 cash flow.

Ben Reitzes - *Barclays Capital - Analyst*

Okay. Then big picture, Ursula, last year you stood up and said steady state for the company was 10% EPS growth, I don't believe that was in the slide this time, and we all know that the guidance for 2014 versus 2013 doesn't equal 10%. I was wondering if that was something you still shoot for --

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Ursula Burns - *Xerox Corporation - Chairman, CEO*

Absolutely.

Ben Reitzes - *Barclays Capital - Analyst*

If in a year from today you feel like that's something, if all goes well you should hope that you're able to say again?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes, I think. So is it something that I still shoot for? The answer is yes, over time. And I can't really talk about 2015 yet. We have to get through 2014 and kind of stabilize the business even more and then I'd be able to talk about 2015. But it's not something that's -- that's off of our conversation.

Ben Reitzes - *Barclays Capital - Analyst*

That's something off the table. Okay.

Jim Suva - *Citigroup - Analyst*

Thank you. It's Jim Suva from Citigroup.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Hey, Jim.

Jim Suva - *Citigroup - Analyst*

A question for Ursula and then a question for Kathy on two different topics. First, Ursula, on the acquisition topic, can you help remind us if acquisitions are lighter this year and likely to become a much more impactful next year, are we going to look back and see a margin impact next year when those all come in or what's your history and what do you look at for margin impact?

Because in some sense, a scale or scope acquisition could be very attractive but may have a margin impact, or you could say all of them are at your company operating margin impact and it's just going forward. So I'm just wondering will acquisitions impact your margin profile when we sit here again next year?

And then, Kathy, on the stock buyback, if I do my math right, I think you did about $278 million or $280 million so far this year and the goal is over $600 million, so it appears like there's a lot of stock buyback to be doing in November and December. Are you on track to hit that or kind of light -- and why not more linear? Is it because the debt pay down issue or do you have cash trapped offshore or how should we think about the linearity of your stock buyback?

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

She wants to take them both so, yes, but -- hey, but I mean, why not?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Everyone else is talking about acquisitions so I might as well get my shot. Overall we certainly not expect the acquisitions to have a negative impact on margin. If anything I'd be predisposed to say I'd expect them to have a modest positive impact, one of the things that I showed when I put up that bubble chart which is a perspective bubble chart is that we're looking to accelerate growth and businesses that are high margin and part of that growth acceleration as expected to come from M&A activity. So we're pretty strategically kind of oriented in M&A and we're looking to continue to invest in areas where we're competitively advantaged.

If I then kind of flip overall to share repurchase program, I'd say, yes, we expect that we're actually going to do a lot of share repurchases in the fourth quarter. Yes, I think we're on track to achieve what we've guided to. And yes, I also expect that our share repurchase program as we move into 2014 is going to be much evener.

If you look back to how we started this year, we had really kind of banked cash expecting a debt pay down which was occurring in the first part of the year. We're not naturally a first quarter or a first half of the year strong cash flow producer and so that was part of our overall strategy. We will be looking to deploy share repurchases over, I'd say, more consistent manner throughout the year.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Thank you, Jim.

George Tong - *Piper Jaffray - Analyst*

Hi. George Tong with Piper Jaffray. Just wanted to follow-up on the services margins questions brought up earlier. As we look at the 2014 services margin bridge and we look at pricing declines and loss contracts being sources of headwinds offset by new ramp in contracts and productivity increases, what do you view as the biggest sources of risk to achieving that greater than 50 basis points of margin improvement? And at the same time, where do you see the opportunities for upside in your 50 basis points of margin improvement?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

So I'll just start with -- the biggest contributor to that margin improvement overall is productivity, right? And I mentioned there were two components to that productivity. One component of the productivity is what I'd call continued good just blocking and tackling. That's us taking the business processes that we're operating and continuing to just get more efficient, it's bringing more tools to get more efficient.

I think really importantly, one of the things that is shifting a little bit overall in terms of how Xerox business services is managed is trying to create more consistency across our operating platform. So it's pushing more from, I'll call it, the center of Xerox businesses services and insurance of a greater level of standardization in terms of our automation tools and how we're managing these workflows across the different business units.

So that's a little bit different approach; it means that we're staffing more from the center and we're looking for more, I'll call it, compliance in terms of how people are getting their productivity initiatives underway. The other piece of that which is I'd say is a newer element in terms of its overall magnitude of importance on margin is really continuing to move the overall footprints of our labor force more to lower cost avenues, lower cost vehicles and lower cost countries.

And so within that, I'd say that's the bigger elements of execution risk but I'd also tell you we know that and so we're taking the action plans that you would expect in order to mitigate that risk. So the good news is a lot of the leaders within the Xerox business services group are sitting right here in this room. I've gotten us a whole lot of time with them over the last few weeks as we've been drilling into plans for 2014 including metrics of measuring this like how many people, from what organizations, over what period of time, to what locations internationally.

So we're at a great level of granular detail in terms of how this will be deployed and I'd say at a much greater level of detail than we would typically be at this point in a year recognizing that it's an area of risk, there's a lot of change management that we're going to have to put around this. That's how we're planning to manage it. And then I'd say overall in terms of just other areas where there's a little bit more unknown, clearly we're looking to improve our overall mix of business. We're starting that in 2014.

I expect that to be a continued element in terms of our overall strategy to expand margins beyond 2014. An element to that is acquisition activity and so while we're certainly going to be targeted in that area, it's a little bit less predictable.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

It was the slide that Lynn put up that we didn't spend a lot of time on, and it was a box in the corner of a slide that talked about signings in ITO, BPO, and document outsourcing. And you saw the signings had 80-something percent up in 2011 in ITO moving down and then BPO and document outsourcing started slow and going up, you saw that mix.

Part of that shift is driven by this recognition that if we continue to sign business in ITO, it, quote- unquote "indiscriminate way," then literally while we operate ITO very well; it's a good business for us. It operates at a normal margin of the ITO business in the industry, the type that we do and it's a lower margin that we aspire for. So we are trying to switch in which we were able to do in '13 particularly towards the middle half of '13 towards the end.

To be able to shift some of our focus from that area, still taking the business that we need to be able to take, et cetera, and move some of our emphasis compensation, focus everything towards BPO and document outsourcing. That mix shift actually showed us something from a positive perspective which is that you can actually incent for an outcome; particularly when it goes to sales people, it seems like it's obvious but we were able to actually pull it off. And the signings that we have in document outsourcing and BPO are good leading indicators of an improvement in margin in 2014.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Yes. And then the last thing I'd add is just moving up the value -- [staff], right?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes, we do.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

So we have talked a lot throughout our presentation today about different types of innovation that we're bringing to the marketplace. And so looking to drive those capabilities more from the center looking to use incentives in order to, I'll call it, supercharge the sales of higher value added activities which enable higher margins, those are all part of how we're really looking to push positive line mix.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

I think the other thing, if I can add; the biggest risk that we faced over the last three years has been primarily around systems implementation.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

Most of the real challenges we've had have been around systems development -- complex systems developments, system implementation. We believe that the partnership that I talked about with Cognizant where they're providing that, they are experts; they're better at that than we are. And so we think that as -- and we saw -- we utilize them in the implementation of the Alaska [NMIS] system. So we know that it works and we think it significantly reduces the operational risk that we have.

George Tong - *Piper Jaffray - Analyst*

Okay.

Ananda Baruah - *Brean Capital Markets - Analyst*

Hi. Thank you. Ananda Baruah, Brean Capital Markets. Two, if I could. The first for Ursula and Lynn, and then the second for Kathy and Lynn. The first is regarding the services growth forecast, if I saw it correctly the long term model still remains mid to high single-digit growth, with the '14 guidance mid single-digit growth. So I'm just wondering if you could -- well, I'd appreciate the proper context in which to view the '14 forecast with regards to the long term forecast.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

So you're right on the short term forecast of mid single-digit. Why don't you take both of these --?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Sure. So one big component of that we're facing headwinds in the student loan business, right? So that's causing us over a point of revenue headwind as we look at 2014. We're starting from basically a base of zero top line add from acquisitions so those are the two things as you look out to 2014. We expect the acquisitions to pick up but obviously that pace is starting from a zero base at the end of 2013, so those are the two factors.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

And if you look through the rest of the business lines, you saw that in the signings, we are pretty confident, pretty solid in how we're operating business, signing up new business, et cetera. So new business signings, designing in general, renewal rate, all the leading indicators from an organic revenue growth perspective are operating, as we would expect them to.

Ananda Baruah - *Brean Capital Markets - Analyst*

Got it. So the bridge in the '14 mid single-digit growth to the mid to high '15, '16, et cetera, it's really -- it sounds like it's M&A from this point.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes. The runoff of the contract which is by '15 has a significantly lower impact on us than in '14 almost de minimis and et cetera, and then we have to acquire.

Ananda Baruah - *Brean Capital Markets - Analyst*

Got it. And then I guess to follow up is with regards to the off-shoring opportunity. Kathy, you mentioned it was going to take place through '17, I guess that was the way that I synthesized the comments. And if that's the case, should we expect it to take place randomly from '14 through '17? And how much of the savings do you expect or anticipate to drop through to the bottom line versus reinvest? What are the dynamics there that we should think about? Thanks.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Yes. And so yes, roughly, we'd expect a ratable change over time. It takes time a piece of this specifically, anything that's kind of customer-facing requires an engagement with that customer. It's not like the customer will just wake up and tomorrow we will have -- move our call center from Lexington to Guatemala or somewhere, and so it's certainly going to take overall a little bit of time and I'd expect it to be roughly evenly paced over that timeframe.

Ananda Baruah - *Brean Capital Markets - Analyst*

And will the cost savings of the majority be passed to the bottom line?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

So absolutely. I mean, look, at the end of the day, we need to get a certain of productivity improvement just to keep pace with price declines. But as you look at that overall, I'll call it waterfall chart that I showed you, we're clearly expecting a level of productivity enhancement that's going to help to enable at least 50 basis point margin improvements, so yes, we're absolutely expecting some of that is going to pass to the bottom line.

Ananda Baruah - *Brean Capital Markets - Analyst*

Okay. Just this last one; is there another way could we expect 50 basis point margin improvement in services through 2017 as a result of a ratable recognition --

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Ursula Burns - *Xerox Corporation - Chairman, CEO*

I mean we're in 2013, we can just barely predict how that's going to end up. With this point I'll look at -- the answer is yes. We want to actually march our business towards the higher end of the 10% to 12% range. And we want to do that by the 2017 timeline at the latest, so that'll be the worse case.

Bill Shope - *Goldman Sachs - Analyst*

Bill Shope, Goldman Sachs. I'm dying to ask another question on productivity improvement next year but I'll hold that for my follow-up. Just a longer term question first if I may.

On manage print services, I think when I look at the metrics that Xerox has provided us with, over the years and your competitors have provided us with and frankly your customers have talked about in terms of the ROI for management services contracts, I'm surprised the industry is not growing at a faster pace. I think we are seeing some of the evidence of the negative impact on the technology segment for the industry as a whole.

But I wonder if you could talk about some of the hurdles to the growth rate and management services in terms of adoption across your customer base. And then on top of that, if you could talk about Xerox's ability to gain share, you have a dominant position in the market, and obviously as a counter to the secular headwinds in your technology business, if you could talk about some of the elements you could drive to accelerate your ability to gain share in the market over time.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

So let me start and then I want Armando to take over. The markets -- you get -- divided into two segments; one that's fairly mature, not totally done as we move up the stack as Armando showed from the simple to the ITO connected and then the BPO. The large enterprise MPS market is not going as quickly as the Partner Print Services market, that's going very, very quickly.

So you should be surprised -- I don't think you would be surprised if you understand the growth rate, which Armando is going to tell you about in a minute, of the Partner Print Services, it's high double-digit and so it's growing fast.

Plus, it's not growing as quickly because it's now mature and going to another set of implementations, it's the large enterprise kind of engagement, but we're moving up the stack and that will start to grow again as we go past the basic and then move up a bit.

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

Yes. There are a lot of moving parts in this business. I absolutely see your point. The only thing I'll build on what Ursula said is that within what is called in the industry of Managed Print Services you have very basic services that is almost a conversion of what you would call technology at least as we called it, to technology really. The difference is that from -- certain place in the market place they call it Managed Print Services. So this is where you have the majority of the growth on the, let's say, more sophisticated Managed Print Services, the growth is really low single-digit.

And then you have a lot of hydraulics pushing the revenue down. We happen to be very happy with our Managed Print Services performance in this moment because as Ursula said, we are growing solid double-digit on our partner on our SMB marketplace, and we are following the market on the enterprise side, so --

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Our size, our scale -- so if you look at our growth rates as well, it's really important to understand and compare to growth rates of others of the competitors. Our growth rates are lower than their growth rates. In total, when you add the two segments together, our size -- our growth dollars are bigger by a mile than they grow with dollars because our size is so much larger. We are a very, very large player in the MPS market in the billions of dollars range and we have some competitors that are in the hundreds of millions of dollars if that big.

So you have a rate on a small base versus rate on a big base. We are very, very pleased with growth here, I mean and our positioning here. And we have great infrastructure but also great new leadership that -- that kind of sparked it a little bit. So it's not a bad place for us at all. We're looking for -- we're continuing to look for growth and excitement here.

Bill Shope - *Goldman Sachs - Analyst*

And I really do have a question on the services margins in the productivity improvement, so a shorter term question. When we look at the margin layout for 2014, it seems to me -- you had said, Kathy, that a big component of this is the labor component and I understand that, but that would seem to be back end loaded. So what type of risk are we looking at for the services margins in the first half given that I'm assuming the pricing dynamics is going to be just as aggressive throughout the year?

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Sure. So certainly the hydraulics for 2014 suggest that we're going to see a margin improvement over the course of the year because if I start with the headwind from shrinking student loan business, we won't kind of [last] that until we get to the fourth quarter of next year, and so that headwind will be greatest in the first three quarters. When I look at overall the investments that we're making and our healthcare platforms right, so as we started to implement those platforms we're now amortizing the big investment we made in building those platforms, we won't last that until the second part of the year.

And then as you mentioned, as we look to move more labor offshore we initially incur sort of a transition cost and then we get the benefit for that over time, I think that suggests that we're going to have a trajectory of improvement throughout 2014. But as we talked about earlier, we've taken all of that into consideration as we've laid out the pretty granular plans for how expect to execute.

Bill Shope - *Goldman Sachs - Analyst*

Okay. Great. Thank you.

Kulbinder Garcha - *Credit Suisse - Analyst*

Thanks. This is Kulbinder from Credit Suisse. Another question on the productivity side maybe for Kathy, on the productivity savings you're targeting, can you speak about what the gross effect is versus the net? I think this was asked before but I just want to be clear on it because I would have thought you have to maybe aim for $800 million of savings to get 400 million to your bottom line. So if you do start moving all these people around, I'm assuming your customers ask for something back as well. Is that the way it works or is it not?

And what will be the factors in the gross versus the net calculation? I was just -- curious about. And linked to that, if you are doing this on an ongoing basis, is there a level of cash restructuring every year that Xerox will face? Just between now and '17, is there some amount that we should think about that's going to be affecting your P&L or your cash flow? Thanks.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

Sure. So I'll start with restructuring and then I'll get back to your question on gross versus net. So absolutely, we anticipate that we're going to have ongoing restructuring charges both associated with productivity activities within services, also just in terms of managing our overall cost base within technology as revenue declines.

If you look this year and what we already talked about in terms of fourth quarter expectation and what we' done earlier in the year, in rough order of magnitude we'll end up spending about $100 million overall in restructuring, we didn't actually have restructuring charges in the first quarter of this year. We in fact, had a modest credit.

So I would expect we're going to have restructuring charges at least equivalent to and probably a little bit greater than what we incurred in 2013 and 2014. The restructuring charges that we have been taking, I'll also point out, are literally people cost related restructuring charges so they're severance-oriented.

And I'd also mention that we don't actually adjust our restructuring cost out of the adjusted EPS guidance that we provide. We know that we're going to have these cost on an ongoing basis and so we don't attempt to characterize them as a one-time cost that we're going to incur in the future.

If I flip over to your question on about gross versus net, I think what your question was getting at is look, every year you're going to face a certain level of kind of margin pressure just coming from things like ongoing price declines, as well as overall impact from friction cost associated with [loss] business and the like. We didn't guide to that specifically but I'd certainly say, I'll call it over 200 basis point kind of gross pressure that we face that we have to offset. It's not like that's a new phenomena within our business.

I've tried to point to specific things going on in the business in the near term that have caused what I'd call more margin pressure than we would normally face. I mean our business model by its nature is this contracts that have an average life between three and a half to four years; built within those contracts are certain level of ongoing price reduction which is an expectation for us to get more productive with the work that somebody has outsourced to us.

And then as we get better with that over time, our expectation is the margins on that contract are typically expanding as we get towards the renewal period which is enabling us to offer yet another price discount in order to keep that contract.

So that dynamic of gross versus net I'd say is very well known, it's very understood, it's embedded both within our current contracts as well as the renewal process. And so we always have productivity as a big bar in terms of what we've got to do in just basic blocking and tackling every year. Really I'd say the only difference as we look out to 2014 or 2014 through 2017, is a big change in terms of looking to shift the overall mix of where we do work.

A lot of that work is work that's behind the scenes and it doesn't actually touch the customer, so development work that we do associated with some of the software that we use, that's something that the customer is pretty indifferent to. When we talk about business process outsourcing as opposed to customer care, a lot of that activity is something that the customer never sees; the customer is relatively indifferent to where we do that work.

Ed Crowley - *Photizo Group - Analyst*

Hello, Ursula. Ed Crowley, Photizo Group. Big picture question for you. If you look at this transition to being in services led company away from a pure manufacturing technology company, so a big shift; took IBM years to do it. Do you think Wall Street is being patient enough with you? As you do that, it's first part of the question.

And the second part of the question, as CEO, what's the big thing that keeps you up at night about that transition? What's the big thing that you really -- the rock you have to move?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes. I actually don't spend a lot of time thinking about whether Wall Street is patient enough in those types of things. I just think they are -- Wall Street is what it is. I mean if we do well then everything looks great; if we don't do well it looks bad, and it depends on what month we're in and which side of the line we sit on there.

As far as what keeps me up at night, I think, one of the things that we found out in 2013 was some of this stuff is really complicated. I'm going to use an example. And this is one of the reasons why we are -- in this example, one of the reasons why we are being very measured in our approach and it kind of maybe connects to this question; I don't want to answer about patience. This Medicaid platform, or health insurance exchanges with these platforms, we hadn't done one; the industry hadn't done one in how many years?

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

15.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

15 years. We need to do one. I mean we couldn't actually win the business that we won and continue to be competitive in the marketplace if we didn't change the platform that we were offering clients that -- it was more compliant, it got to other areas where law says you have to go with fraud and abuse -- be able to get behind this.

And just like when you develop a piece of technology which we are very comfortable with developing, like an iGen or IMPECO or something, we know exactly how to look at the risk factor there and how to kind of abound it to protect ourselves. We're learning a lot more about these -- very, very large implementations of platforms that will serve us very well as we go forward but the initial startup is actually nothing like you think.

You kind of lay it out and you think it's going to work that way and then you basically protect, protect, protect to make sure that at the end of the day the client doesn't suffer. That's the ultimate thing. Often the client doesn't really even know what they want so you've got -- you go back and forth, back and forth.

And so the thing that keeps me up at night is to make sure that we get these platforms of which they were probably four key ones, one is a Medicaid platform that we have to do in insurance exchange platform that we have to do, a transportation platform; good news is that that's already there. And then we have to have a set of analytics tools platform that is the bottom of all that to get them all mature and up. And then everything from that point forward is just a little modification around the edges which is big by the way. These little modifications are huge but it's not like putting in a whole new set of plumbing.

And that's the thing just to discipline and the predictability that we have on the technology side to do large investments, as something that we have to make sure that we continue to push towards on the services side which is still relatively new. Partnerships will help us.

This idea that not -- you don't have 2,000 points of independence in the business anymore that you have 2,000 really excited businesses but they have some requirements about how they follow the law, what risk we want to take, those kinds of things. That's the fundamental change and something that I think that we've learned as we've had this company in front of us. You're welcome.

Shannon Cross - *Cross Research - Analyst*

Shannon Cross. Just had a follow-up question.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Didn't you asked already? Did you ask the question --

Shannon Cross - *Cross Research - Analyst*

I asked, yes. I was curious. And Armando hasn't been able to talk very much so I thought I'd ask him.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Okay.

Shannon Cross - *Cross Research - Analyst*

It seems as if printing has rebounded in Europe somewhat at least, I mean you had really easy comps in the industry in general in the third quarter, but I'm curious geographically what trends you're seeing both printing and services as well too although you are more US-centric, just to get an idea of what the economies are doing and what you're hearing from your customers in terms of their underlying strength.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Since Armando hasn't spoken a lot, I think he should take this.

Armando Zagalo de Lima - *Xerox Corporation - EVP, President - Xerox Technology*

Okay. So, thank you. I mean I would say that the US market has been kind of stable. I would characterize it this way. Europe is seeming to indicate positive signs but very early stages. Developing markets have slowed down substantially, obviously would prefer that not to be happening but at the same time we know these markets go by cycles. We are used to these cycles. We have a management team that is used to deal with these cycles so we are now managing it in a kind slow down mode.

And when they start accelerating again what will happen, we'll manage it on that way. So this is the way we'll look to the markets geographically.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

In services, you are right, we are largely US-centric obviously. The markets outside the United States are actually fairly attractive. So we keep using transportation as an example. It is a market that requires some farming to get people to understand. We always say, Kathy and I were in India a couple of months ago -- I remember it a couple of months ago. We landed, got in the car, and we said, yes, we have a solution for this geography and it's called smart roads, et cetera, et cetera et cetera.

It's clear that transportation can make it around the world. It's not easy to do because you have to have foot print you had to do it and you have to get -- so we're pushing towards that. We don't see a lot of market based headwinds for the applicable solutions outside of the United States. We just have to get started and do them and some of them, we are and others we have to start. We don't see -- we are not big enough or playing actively enough to have that be a barrier to us.

Sattya Brahma - *FS Group - Analyst*

Sure. Hi, guys. [Sattya Brahma] from the [FS] Group. My question is more from a contract standpoint and given our proximity to some of the IT, BPO contracts we man.

My first question is around the acquisitions. So case in point, there have been acquisitions which when they happened, it seemed the right thing and the right way to go forward. But in hindsight, when we look back it seems that Xerox is somewhere lagging in terms of commercializing the capability that should have come out of the acquisition case in point. [Is -- yes], acquisition. When it happened -- and then again talking specific to the contracts that have personally have the proximity too.

So if I look at the contracts around source to pay, we are still seeing that in a lot of contracts, so when the marriage happened it seemed that now from your roster, you have a good source to pay a portfolio offering to take to the market. We are still seeing that a lot of contracts in the BPO space still happen from the legacies contracts which are B2B [lend]. Xerox has a wonderful capability because of its legacy in this source to contract space, but we're not seeing that transition into the actual landscape out there, Xerox pitching it out, winning big deals in there.

Symcor and other contract prior to the acquisition, we work closely with Symcor, yet to see something come out of it, it suggests that [inaudible] and the value prop that the acquisition is now putting out in the market is definitely a differentiation compared to the competiveness, so a little bit about that. So that's question one. I have a follow on I'll come back to that.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Did you understand it? So Source-to-Pay, Symcor I think were the two that you used as an example. Actually, I'm going to have to have Lynn answer them because I actually don't think that there's a lot of problem with either of them. I don't know about the Source-to-Pay one but Symcor, we're pretty pleased with -- what's happening with Symcor, we're happy with that business.

So we have to actually speak to you very specifically about it. We have people who can help you walk through it. And I'm not really sure what expectations you had for them, I'm not sure. But the expectations that we have for that particular one is turning out pretty appropriately. And then I'm not sure about the other one --

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Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

In the case of Symcor, it has actually performed pretty much in line with the acquisition model. And we need to continue to drive sales and we're doing some things in Canada where that obviously was the birthplace of Symcor. And we're doing some things with the Xerox Canadian Organization in financial service to help drive that. But overall it's performing well. The Source-to-Pay I unfortunate have --

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Ursula Burns - *Xerox Corporation - Chairman, CEO*

Not too sure about it. So we can actually get to -- get back to you when it -- on Symcor, one of the things that -- Lynn just said there's something that is an important bridge that we have to make as a company. And Lynn said a couple of words that Canada's -- flew everybody's head, there's this thing called [One] Xerox?

We've been very, very, good at starting up businesses in the US So acquiring it and splitting it around the United States in the services business, that's the model that they had. And we've made some progress, some pretty significant progress early on in expanding some of our services, finance and accounting; for example, outside the United States as we [bid] people down in Europe primarily. And transportation just like anywhere we get [us frankly].

But what we found is that it's very difficult to actually have in a market like Canada, for example, which is very organized, we have an amazing position. In Canada we have 35% share or so in the technology business, very, very good management team, stable, very skilled, very well known. It's been difficult for us to actually move all of these services 2,000 things that we sell or 200 things that we sell depending on getting it down to Canada. I'm just saying, "Okay. Now you go do that."

Because whenever you actually engage a services guy, who's actually selling or implementing and say, "Go over to Canada," they go, "Canada? That's kind of -- I understand Canada but it's small." So we're taking a different approach in certain markets, Canada being one of them where we have all of the foundation, excellent leadership team, excellent position in the marketplace, unbelievable reputation, and we're going to actually grow services in Canada in a differential way so that we can actually accelerate the participation in Canada.

We can't do that in all markets because not all markets do we have the strengths that I talked about in Canada but in Canada we can. It just happens to be -- it's a kind of a sideline point and it may actually get to some point, I don't know.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Where are you?

Unidentified Audience Member

Service margin -- hello. Your service margin negatives in 2013 from student loan and from standing up healthcare, the service margin bridge for 2014 doesn't seem to have a component for the risks of standing up at [MIS ACA] exchange programs. When you -- and then Ursula suggested you learned a lot, you made a lot of progress in that area.

When you look at where you expect that business to be at the end of 2014, are you assuming that given the fumbles in the federal exchange there will be more state exchanges, you'll be participating with more people or is it your assumption that you'll be kind of executing on the existing business you have now?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

I think that we will absolutely be participating to win additional business. And we will be executing on the exchanges that we have on the MIS systems and the exchanges that we are either leading or participating in, I think both. The thing about -- Lynn talked about when we went through the Affordable Care Act chart, the reason why I put it in there, we're not experts on the Affordable Care Act but there's so much discussion around it and we just want to actually give a walkthrough of what this kind of thing is, generally.

It's too early to tell what's going to happen on the fallout of the Affordable Care Act on the go forward basis. It's too early to tell what states are going to go, how they're going to settle down, whether they're going to slow down it's too early to tell. Whatever they do, we're going to take an approach that looks at every single deal that comes up and decide whether we bid or respond to that or not. So we're not going to assume that nothing is going to happen and nor we're going to assume that we're not going to participate.

And as importantly, we're not going to assume that all of them are important for us to go after because some of the risks are -- may be too high. So it's going to be -- this is going to be a dynamic space for us, the ones that we have today, Alaska, New Hampshire, and the other ones that we have, California which is making its transition, we're going to spend a lot of time making sure that we get the margin outcome from those contracts right which is all about implementation and working closely with the client.

So we're going to have a huge amount of focus on that. And then for the next -- for the ones that come up we're going to have to be aggressive. I don't want to walk away from that market. I don't want to walk away from options in that market and without actively seeing that -- making a specific decision on each one.

Unidentified Audience Member

Can I squeeze in housekeeping? You talked about for the full company total revenue decline 2% constant currency. What is your actual currency assumption and what does that lead you with the kind of GAAP revenue guidance for the year?

Ursula Burns - *Xerox Corporation - Chairman, CEO*

For 2014, we said flat to 2% positive.

Kathy Mikells - *Xerox Corporation - EVP, CFO*

For 2013, we said down 1% in constant currency. And overall currency we've had a relatively moderate impact so I wouldn't expect that to move it by an entire point.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

I think we have time for one last question.

Unidentified Audience Member

Thank you. Two questions for Lynn. First is with your Cognizant partnership. It seems in some ways like you might be taking some revenue out of the mouths of Xerox by partnering with somebody, but at the same time possibly it's lower cost of service than you doing it internally, so I was hoping if you can elaborate on that aspect of it and also on if they are giving you some business to fill the hole for the revenues you're giving them, that's the first question. And then I'll ask the second one when you're done with that.

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Yes.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

I think that as far as the Cognizant relationship, most of the work that we're doing with them as they are serving as a subcontractor, so that doesn't impact our top line revenue. And as you pointed out, I don't think I can overstate the challenge that complex system implementation has presented for us, and having Cognizant who we believe are as good as there is in the industry to support us in that area to lock down our pricing in those areas and mitigate the kind of risk that we've had when we were doing it ourselves, we think that it will have minimal impact on the revenue picture and a significant improvement.

Our cost, in our execution capability. As far as them giving us other work we've actually participated in bids where we bought them in. As a subcontractor, they've given us bids where we come in as a subcontractor. So I think so far it looks like a real good partnership.

Unidentified Audience Member

So is this the trial run for a broader and deeper relationship?

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

I think --

Ursula Burns - *Xerox Corporation - Chairman, CEO*

Almost always is. But the trial runs don't always end up with anything but a trial run. So we clearly -- we started when we did business with Flextronics outsourced our equipment manufacturing from the US, yes.

You try to go -- first of all you pick somebody like that because you can actually trust them to fit with your company, they're not necessarily competitive in the space yet. And so if there's a way -- particularly from a joint go-to-market perspective where we go to market together, using what we do for each other to actually serve other clients, we'll try to move it as much as possible.

So, yes. But a lot of wishes don't turn into anything so we're very rarely book account on them all winning that way because they don't always -- they hardly ever do. But we'll see what we can do with Cognizant and whoever else we do business with. Thank you.

Unidentified Audience Member

Okay. Great. The question -- never hand the microphone to somebody on the buy side; we never get to ask questions.

The question has to do with -- you mentioned you're number one or two in the verticals that you're in but you're not in all the verticals. So the next question would be as you make acquisitions, as you have the new program to expand the verticals that you're in, or is your focus going to be to continue to concentrate on what you're number one or number two at? And then if you are going to expand your verticals, can you give us a sense for the areas where you think it makes sense for you? Thanks.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

Well, the acquisitions strategy is to continue to deepen the -- or the kinds of services we offer in a given vertical. So the analytics capabilities that we got from WDS actually added capabilities to our customer care business. That's what we'll continue to either add capability through acquisitions or additional coverage --

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Ursula Burns - *Xerox Corporation - Chairman, CEO*

Those are the two major focus, yes.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

Yes. Those are --

Ursula Burns - *Xerox Corporation - Chairman, CEO*

So expanding outside of the vertical -- I mean if something comes up that's really, really great and we would go after but our major is to fill out the offers in the verticals that we focus on so fill out healthcare which are pretty good yes, but we need some analytics fill out transportation, fill out customer care to do that either globally or with some plug in, in part of the offer value chain. If something comes along the other way, we clearly will look at it if that's not where we're focusing.

Lynn Blodgett - *Xerox Corporation - EVP, President - Xerox Services*

And we have a lot of -- there is a lot of opportunity, a lot of white space still in these key verticals where we play the high growth, high margin verticals, so that's what --

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Ursula Burns - *Xerox Corporation - Chairman, CEO*

So thank you for joining. I'm actually talking up with Lynn so we can [exit] in the morning. It's been a good I think couple of few hours. We covered a lot of ground. I hope that we were able to provide you with some more detail that help you understand today's -- Xerox is a little bit better and the direction that we're heading in.

75 years Xerography to where we are today to 75 years in the future, still a strong technology innovation company, one that's focused on services and will be in the document technology area in the places that are growing even more actively and more broadly.

And we'll continue to be a shareholder-friendly company where we return at least 50% of our free cash flow to shareholders. And for those of you who are joining us on the Web, this is the end of the Webcast.

Again, thanks for sticking around. For those of you who are here, we have a lunch downstairs, we'll head -- oh, upstairs. We'll head to the seventh floor where you registered for your engagements. And Kathy, Lynn and myself and a lot of the leadership team that you -- got introduced earlier will be upstairs to talk to you.
