

# Third-Quarter 2009 Earnings Presentation

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# Forward-Looking Statements

*This presentation contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to the unprecedented volatility in the global economy; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; the risk that the future business operations of Affiliated Computer Services, Inc. ("ACS") will not be successful; the risk that customer retention and revenue expansion goals for the ACS transaction will not be met; the risk that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and June 30, 2009 and our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.*

*Xerox and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information. You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge, at the Securities and Exchange Commission's (SEC) Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from Xerox's website, [www.xerox.com](http://www.xerox.com), under the heading "Investor Relations" and then under the heading "SEC Filings". You may also obtain these documents, without charge, from ACS's website, [www.acs-inc.com](http://www.acs-inc.com), under the tab "Investor Relations" and then under the heading "SEC Filings". Information regarding participants or persons who may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction is contained in Xerox's proxy statement for its most recent annual meeting and ACS's proxy statement for its most recent annual meeting, both as filed with the SEC.*

# Today's discussion

- Q3 Results
- Financial performance
- Expectations for Q4
- ACS acquisition update
- Pro forma financial model

# Third-Quarter Overview

**GAAP EPS of \$0.14 per share above expectations of \$0.10 to \$0.12**

**Total revenue continues to be impacted by economic environment; down 16%, 14% CC**

- Post sale down 11 %, 9 % CC
- Equipment down 29 %, 28 % CC
- Declines largely consistent with Q1 and Q2

**Solid cost and expense performance**

- Gross margin improved 0.6 points YOY to 39.8 %
- SAG percent of revenue 27.4 %, lower by \$131M YOY
- Flow-through of savings from restructuring and cost actions

**Strong balance sheet and cash flow performance**

- Cash from operations \$610M, increasing guidance to ~\$1.7B FY
- Cash balance of \$1.2B
- YTD debt reduction of \$938M, on track for more than \$1B debt reduction in 2009

**Raising full year earnings expectations to \$0.55 to \$0.57\***

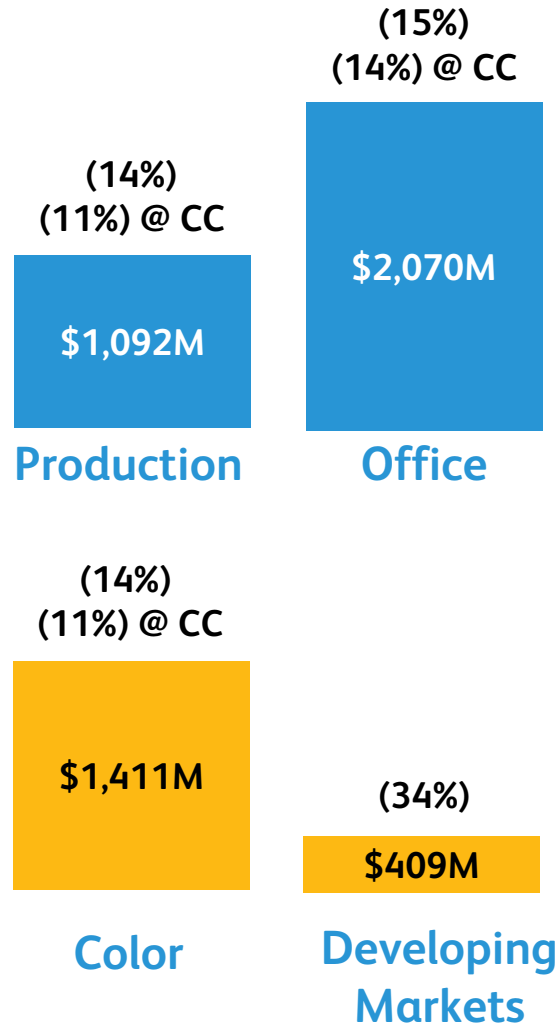
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4 *Constant currency (CC): see slide 30 for explanation of non-GAAP measures*

*\* Excludes Q4 ACS acquisition related costs: see slide 30 for explanation of non-GAAP measures*

# Revenue

## Overview



- **Sequential revenue seasonally lower but overall consistent with Q2**
- **Install base stable**
- **Services annuity remains resilient: down 5 % @ CC\***
- **Developing markets pressured: results consistent with prior two quarters**
- **Office**
  - Lower channel equipment and supplies sales continues
  - Solid operating margin of 9.7 %
  - ColorQube™ momentum building
- **Production**
  - Impacted by color product launch timing and mono page volume declines
  - Operating margin of 5.4 % up sequentially
  - Strong showing at Print '09

5 Constant currency (CC): see slide 30 for explanation of non-GAAP measures

Color revenue excludes GIS

\*Services annuity down 8% actual currency



# Earnings

(in millions, except per share data)

Q3 2009

Revenue	\$ 3,675	Continues to be impacted by global economic conditions and currency
Gross Margin	39.8 %	Cost improvements offset transaction currency
RD&E	\$ 209	Commitment to innovation
SAG	\$ 1,007	Expense actions partially mitigating lower revenue
<i>SAG % of Revenue</i>	<i>27.4%</i>	
<b>Operating Income</b>	<b>\$ 248</b>	
<i>Operating Income % of Revenue</i>	<i>6.7%</i>	
Other, net <sup>1</sup>	\$ 86	Includes acquisition related costs of \$9M
<b>Net Income - Xerox</b>	<b>\$ 123</b>	
Equity Income	\$ 15	Includes \$9M Fuji Xerox restructuring
Tax Rate	28 %	
<b>GAAP EPS</b>	<b>\$ 0.14</b>	Compared to guidance of \$ 0.10 - \$ 0.12

# Cash Flow

(in millions, except per share data)

	<u>Q3 2009</u>	<u>YTD 2009</u>
Net Income	\$ 129	\$ 325
Depreciation and amortization	176	513
Restructuring payments	(66)	(231)
Inventories	77	159
Accounts Receivable and Billed Portion of Finance Receivables	5	310
Accounts Payable and Accrued Compensation	138	(135)
Finance Receivables	116	347
Equipment on Operating Leases	(58)	(185)
Other	93	138
<b>Cash from Operations</b>	<b>\$ 610</b>	<b>\$ 1,241</b>
CAPEX (incl. internal use software)	(40)	(144)
Acquisitions	-	(145)
Other	9	15
<b>Cash from Investing</b>	<b>\$ (31)</b>	<b>\$ (274)</b>
Net Debt Payments / Proceeds	(615)	(921)
Other	(39)	(133)
<b>Cash from Financing</b>	<b>\$ (654)</b>	<b>\$ (1,054)</b>
Change in Cash and Cash Equivalents	(62)	(70)
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 1,159</b>	<b>\$ 1,159</b>

**Increasing guidance from \$1.5B to ~\$1.7B FY Cash from Operations**

**Working Capital** source of \$139M of cash

\$38M pension contribution, lower year over year

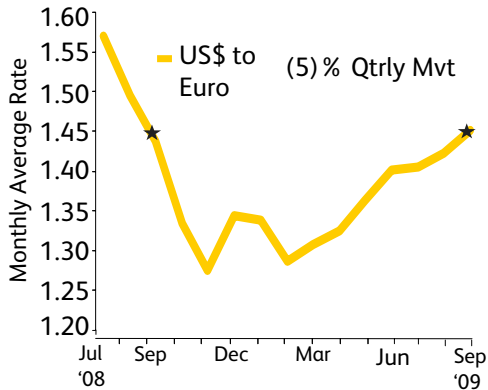
**CAPEX** (incl. internal use software) forecast at \$200M FY

**\$1B+ debt reduction** forecast for FY

## Currency

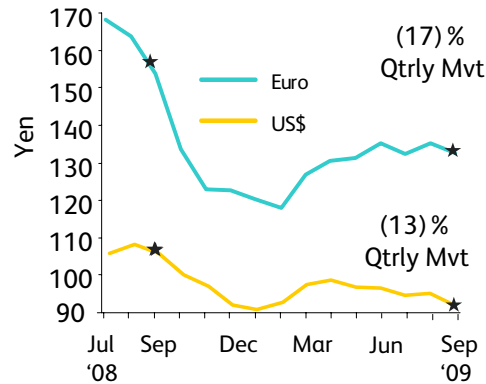
### Translation

US\$ to Euro



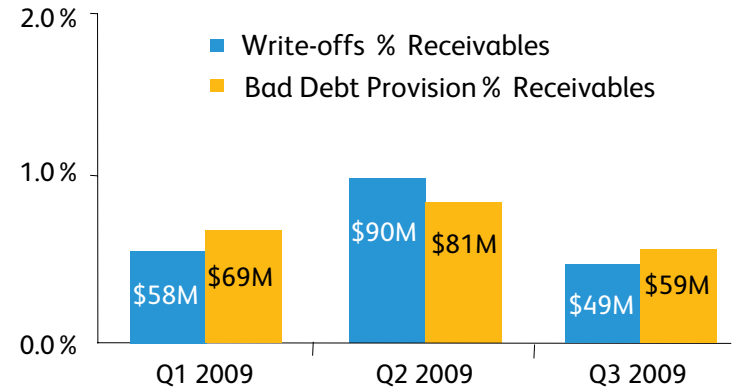
### Transaction

US\$ and Euro to Yen



## Receivables

Provisions and write-offs as a % of Receivables remains less than 1 %

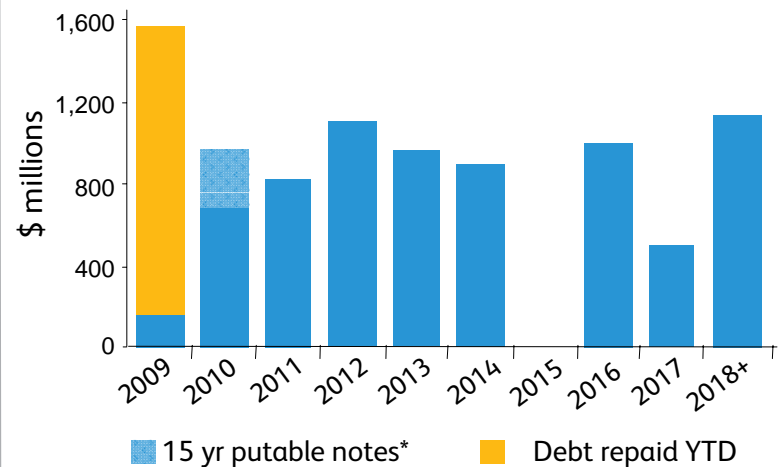


## Financing Dynamics

- Xerox's value proposition includes leasing of Xerox equipment
- Maintain 7:1 leverage ratio of debt to equity on these finance assets

\$ billions	Fin. Assets	Debt
Financing	\$ 7.6	\$ 6.6
Core	-	\$ 0.8
Total Xerox	\$ 7.6	\$ 7.4

## Balanced Debt Maturities\* Debt Ladder



# Third-Quarter Post-Sale Revenue

(in millions)

## Q3 2009

<b>Post Sale</b>	<b>\$ 2,873</b>
Growth <sup>1</sup>	(11 %)
CC* Growth	(9 %)

## Post Sale at CC\*

<b>Q3 2008</b>	<b>\$3,245</b>		
Finance income	183	(14)	(0.4) %
Outsourcing	794	(33)	(1.0) %
Service and rental	1,131	(66)	(2.0) %
Paper	256	(67)	(2.1) %
Supplies and other	589	(112)	(3.5) %
<b>Q3 2009</b>	<b>\$2,953</b>		<b>(9.0)%</b>
<i>Developing Markets</i>	324	(108)	(3.3)%

- Lower unbundled supplies and paper sales continue to drive decline
  - Supplies impacted by Xerox inventory management
- Developing markets post sale down 25 %
- Core annuity relatively resilient - down 5 % @ CC
  - Reflects economy driven 6 % page volume decline
- Install base stable – color leverage continues

## Q3 2009 Post Sale Key Indicators

	Color	Total Digital
Revenue @ CC	(4) %	(8) %
MIF (Install Base)	20 %	1 %
Pages	7 %	(6) %

\*Constant currency (CC): see slide 30 for explanation of non-GAAP measures. <sup>1</sup>Actual growth weighted impact:

9 Finance income (0.6)%; Outsourcing (1.8)%; Service and rental (3.1)%; Paper (2.3)%; and Supplies and other (3.7)%  
 MIF (Machines in Field) exclude printers, developing markets & GIS. Color and digital revenue excludes GIS.  
 Pages includes estimates for developing markets, GIS and printers



# Expectations

## **Q3 results demonstrate continued good cost control and cash execution**

- Raising full-year guidance

## **Q4 results seasonally stronger**

- Expectations reflect continued economic pressure

## **Recent product launches strengthen competitive position**

- Led by ColorQube in Office and 7002/8002 digital presses in Production

## **Full-year 2009 guidance increased**

- Q4 earnings \$0.20 - \$0.22\*
- FY earnings \$0.55 - \$0.57\*
- FY cash from operations ~\$1.7B

# ACS Acquisition Update

Discussion points:

- Why we're taking action now
- How we planned for this transformative deal
- Revenue and profit synergies
- Strategic and financial profile

# A Strategic and Compelling Transaction

**The acquisition of ACS is designed to deliver increased and sustainable shareholder and customer value**

**Builds on Xerox's strong financial base and drives value creation**

- Provides immediate scale and leadership in BPO
- Increases already strong free cash flow
- Strengthens annuity based business model
- Leverages brand strength, global reach and technology expertise
- Expands market opportunity
- Enhances our growth prospects

**Growth catalyst that secures Xerox a strong, competitive future**

# A Global, Diversified Leader

**Acquisition leverages the strengths of two best-in-class companies to create a new class of solutions provider**

- \$22 billion in revenue
  - \$17 billion of recurring revenue
- Greatly expanded service capabilities
  - \$10 billion revenues from services
  - Nearly 50% of total revenue
- Strong free cash flow will exceed \$2 billion a year or 8%+ of annual revenue
- Double digit operating margins
- Expands Xerox's addressable market four times to over \$500 billion, with an annual 5% growth rate

*“Xerox will now have a critical mass of services, accounts, and sales to be a major player in the lucrative BPO market. The company has also fundamentally repositioned itself in the office document technology and services industry.”*

InfoTrends, October 8, 2009

# Emerging Market Dynamics

## Customers are seeking service providers that offer a full range of solutions

- Large enterprises demand global capabilities and global account management
- Lines are blurring between the document infrastructure and business processes

## Industry is already consolidating

- Traditional competitors are focusing more on services
- Services competitors are leveraging scale

## Mature market has made growth challenging in our traditional business

## Future growth opportunity is driven more by services than core technology business

*"With ACS, Xerox becomes a formidable player in the business process segment of outsourcing services. The combination establishes a very strong player in transactional or operational BPO. Xerox is propelled into the big leagues with a robust network of offshore facilities, which should strengthen its services value proposition measurably."*

Everest Research Institute, September 28, 2009

# Why Business Processing Outsourcing

**BPO largely driven by document-driven work.**

Value is in:

- Automating labor intensive tasks through technology
- More efficient manual work processes
- A combination of both

**Many industries still very dependent on documents**

- Health care, insurance, financial services, etc.

**Largely annuity-based business**

- Long-term contracts provide recurring revenue

**Strong, sustainable relevance and value proposition**

- BPO is always about improving productivity, reducing costs

**Serves diverse markets, across verticals**

# Taking Action Now

**Xerox is the industry leader in key growth markets of our existing business**

**ACS is a best-in-class BPO enterprise**

- Diversified offerings with market leadership
- Delivering strong profitable growth: 6 percent growth in fiscal 2009
  - New business signings of \$1 billion in annual recurring revenue
- 92% of revenue is U.S based; need to scale globally
- Solid services expertise; need innovation to differentiate offerings

**Scaling services differentiates Xerox in marketplace; adds value to our technology**

*Regardless of the strength of our existing business, without a company like ACS, we will miss the opportunity to exploit the growth potential in this market as a leading provider of integrated solutions.*

*"Our net assessment is this is another bold and visionary move by Xerox that holds much promise for the expanded company and its combined customers. Xerox's much larger size brings great resources for leverage in back-office management, global expansion and R&D."*

IDC, September 28, 2009

# The Planning Process

Began evaluating acquisition targets several years ago

ACS was considered from the outset

Initial focus was on small “bolt-on” acquisitions in vertical markets

Rigorous review and analysis led us to believe the timing was right to pursue ACS

- Best option to enhance the key pillars of Xerox’s business
- Prioritized objectives to include:
  - Expanding market and growth opportunities
  - Strong financial profile
  - Experienced management team to lead effective execution

# Tangible and Achievable Synergies

## Complementary portfolio of offerings; compelling tangible, achievable synergies

- Strong revenue growth potential
  - Scale ACS internationally through Xerox brand and global account relationships
  - Account-by-account analysis of meaningful new business potential
  - Conservative assumptions on deal opportunities and closure rates
- Cost synergies provide a solid financial return
  - Line-by-line review to identify specific cost reductions
  - Focus on corporate governance, services delivery, and infrastructure
- Significant combined cash flow with additional cash benefits over first three years

*“Xerox has had BPO aspirations for years... With this deal, ACS will bring savvy BPO marketing, packaging, pricing, deal pursuit and execution to the table, while Xerox's brand and global client reach should bring strength in the Asia/Pacific region and Europe, where ACS has not established inroads.”*

Gartner Research, October 1, 2009

# Estimated Annual Synergies

■ Revenue Synergies    
 ■ Cost & Expense Synergies

Teams	Synergies	Annual Revenue			Annual Pre-tax Profit		
		Year 1	Year 3	Year 5	Year 1	Year 3	Year 5
Services Sales	Leverage Xerox brand & combined relationships for N. America growth	--	250	530	--	15	60
	Leverage Xerox global presence for ACS expansion	--	115	300	--	5	35
	Leverage cash flow for continued BPO expansion	--	325	930	--	40	115
Innovation	Use Xerox technology to automate & differentiate	--	75	150	5	30	40
Corporate Governance	Consolidate public co. & governance structures	--	--	--	55	55	55
Delivery & Infrastructure	Reduce labor & shared BPO platform costs	--	--	--	25	195	205
	Leverage Xerox hardware & ACS services internally	--	--	--	15	60	90
Total Base Case		--	750+	1,900	100	375+	575+
Total Base Case + Upside		--	1,200	2,900	150	500+	800+

- \$250M+ in additional cash benefits over first 3 years
- Breakout opportunities not included in Xerox's synergy cases

# ACS + Xerox: Strong financial profile

## Steady State Business Model

Revenue Growth	6 – 8 %
Operating Margin	10 – 12 %
EPS Growth	10 – 15 %
Cash Flow from Ops / Revenue	11 %
Free Cash Flow / Revenue	9 %

## Capitalization

(in billions)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Debt	\$10.5	\$8.7	\$8.0	\$7.9
Finance Debt	\$6.6	\$6.2	\$5.9	\$5.5
Core Debt	\$3.9	\$2.5	\$2.1	\$2.4
EBITDA	\$2.8	\$3.2	\$3.5	\$4.0
Total Debt / EBITDA	3.7	2.7	2.3	2.0
Core Debt / EBITDA	1.4	0.8	0.6	0.6

## Cash Flow

(in billions)	<u>2010</u>	<u>2011</u>	<u>2012</u>
Cash from Operations	\$2.6	\$2.8	\$3.1
CAPEX	\$(0.6)	\$(0.7)	\$(0.7)
Debt Payments	\$(1.8)	\$(0.8)	\$(0.1)
Dividend Payments	<u>\$(0.3)</u>	<u>\$(0.3)</u>	<u>\$(0.3)</u>
Available Cash	-	\$1.0	\$2.0

Above assumes a \$1B cash balance in all periods

## Income Statement

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenue	\$22B	\$24B	\$25B
Operating Margin	10 %	11 %	12 %
GAAP EPS	\$0.55 - \$0.65	\$0.75 - \$0.85	\$0.90 - \$1.00
Adj. EPS	\$0.75 - \$0.85	\$0.95 - \$1.05	\$1.10 - \$1.20

Adjustments include estimates for amortization of intangibles, restructuring and asset impairment costs and acquisition related costs

# A Compelling Value Proposition

Combines the strengths of best-in-class companies, creates a new class of solutions provider

Provides customers with a broader suite of business solutions

Strengthens emphasis on cash generation and recurring revenue

Accelerates services-led strategy to provide greater scope, scale, and relevance as a global BPO competitor

Unites highly complementary organizations

- Dedicated teams from each company are meeting and setting concrete priorities
- Plans in place to realize specific synergies identified during due diligence process

Delivers increased and sustainable shareholder and customer value

*“The acquisition will deepen Xerox’s channels for managed print services (MPS), infuse R&D and innovation into ACS customers, and provide more standard offerings for ACS’s business process outsourcing (BPO) offerings.”*

Forrester Research, October 5, 2009

# Supplemental Slides

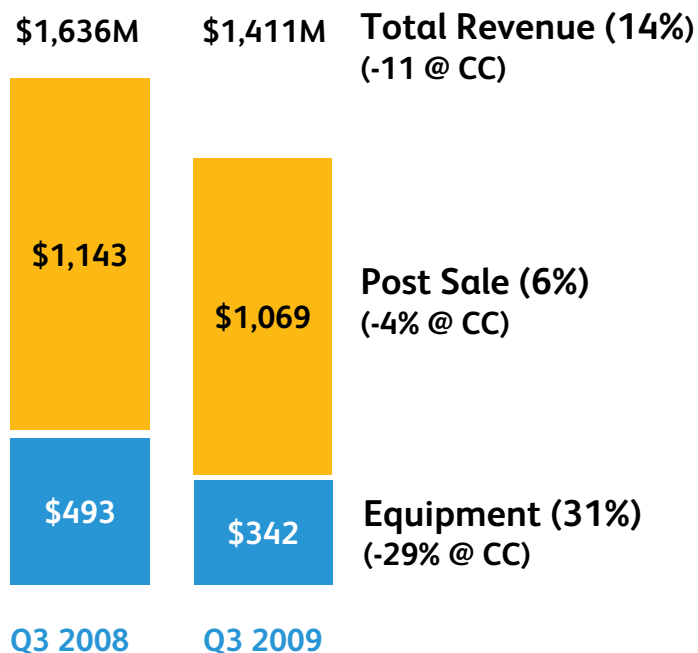
# Revenue

2009

(in millions)	Q1	Q2	Q3	YTD
<b>Total Revenue</b>	<b>\$ 3,554</b>	<b>\$ 3,731</b>	<b>\$ 3,675</b>	<b>\$ 10,960</b>
<b>Growth</b>	<b>(18%)</b>	<b>(18)%</b>	<b>(16)%</b>	<b>(17%)</b>
<b>CC* Growth</b>	<b>(12%)</b>	<b>(13)%</b>	<b>(14)%</b>	<b>(13%)</b>
<b>Post Sale</b>	<b>\$ 2,784</b>	<b>\$ 2,903</b>	<b>\$ 2,873</b>	<b>\$ 8,560</b>
<b>Growth</b>	<b>(14%)</b>	<b>(14)%</b>	<b>(11)%</b>	<b>(13%)</b>
<b>CC* Growth</b>	<b>(8%)</b>	<b>(8)%</b>	<b>(9)%</b>	<b>(8%)</b>
<b>Equipment</b>	<b>\$ 770</b>	<b>\$ 828</b>	<b>\$ 802</b>	<b>\$ 2,400</b>
<b>Growth</b>	<b>(30%)</b>	<b>(29)%</b>	<b>(29)%</b>	<b>(29%)</b>
<b>CC* Growth</b>	<b>(26%)</b>	<b>(25)%</b>	<b>(28)%</b>	<b>(26%)</b>

# Color Performance

## Total Color Revenue

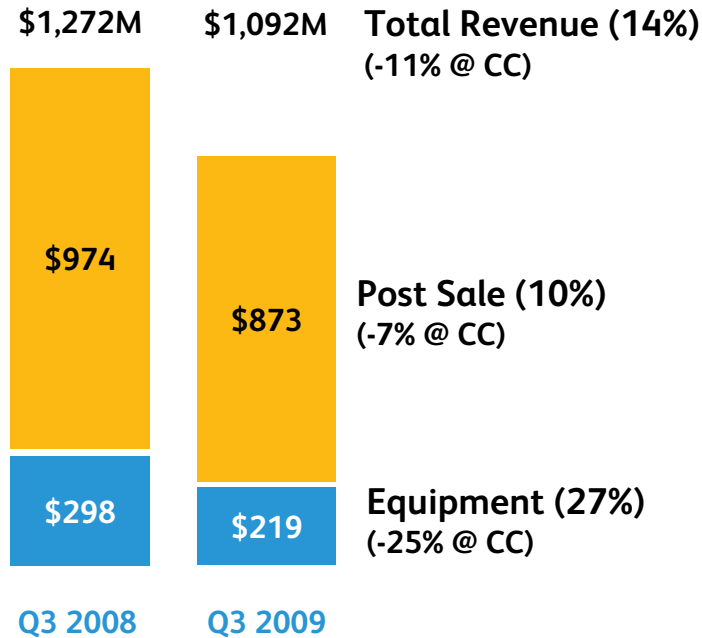


## Quarterly Color Trends

	Q3 2007	Q3 2008	Q3 2009
<b>Color Revenue:</b>			
% of Post Sale	35%	37%	40%
% of Equipment	51%	50%	51%
% of Total Revenue	39%	40%	42%
<b>Color Pages:</b>			
Growth	32%	27%	7%
% of Total Pages	13%	17%	21%

# Production Segment

## Production Revenue



## Production Overview – Q3

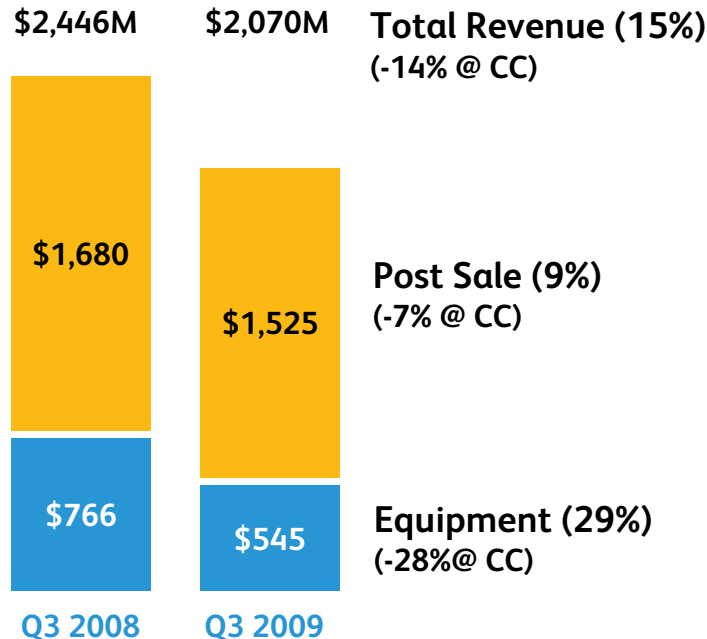
- Impacted by lower sales and mono page volume declines
- Production color installs mix improved but unit growth impacted by lapping of launch of Xerox 700
- Operating margin of 5.4 % up sequentially
- Strong Print '09 showing - 13 products launched including 7002/8002 digital presses

## Install Growth<sup>1</sup>

	Q3 2009	YTD 2009
Production Monochrome	(22%)	(25%)
Production Color	(32%)	(13%)

# Office Segment

## Office Revenue



## Office Overview – Q3

- Lower channel equipment and supplies sales continues
  - DMO remains weak
  - Supplies impacted by Xerox inventory management
- Solid operating margin of 9.7 %
- ColorQube momentum picking up
  - Fully launched in U.S.
  - September launch in Europe to strong reception

## Install Growth<sup>1</sup>

	Q3 2009	YTD 2009
Office B&W Copiers/MFDs	(48%)	(44%)
Segments 1 (11-20) ppm	(88%)	(86%)
Segments 2-5 (21-90) ppm <sup>2</sup>	(4%)	4%
Office Color MFDs	(31%)	(25%)
Color Printers	(41%)	(35%)

26 Constant currency: see slide 30 for explanation of non-GAAP measures  
Beginning in 2008, developing markets results are included in the results of the Production, Office and Other segments

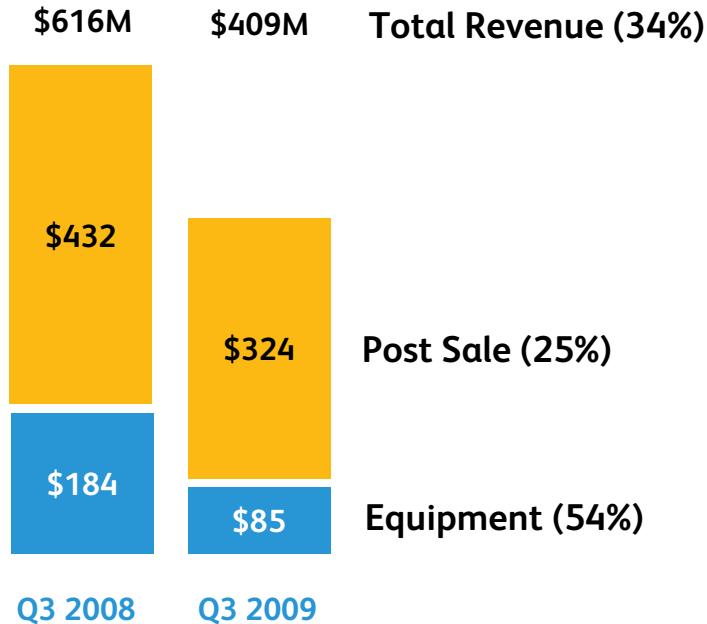
<sup>1</sup>Install growth includes Xerox-branded product shipments to GIS

<sup>2</sup>Segments 2-5 (21-90) ppm includes 95 ppm, segment 6 device with an embedded controller



# Developing Markets

## Developing Markets Revenue



## Developing Markets Overview – Q3

- Results consistent with Q1 and Q2
- Economic environment remains weak especially in Russia and Eurasia
- Currency continues to negatively impact the results

# Cost Action Status

## 2008 Restructuring

2009 Savings Objective	\$250M
Q3 2009 Savings	~ \$ 70M

## 2009 Incremental Cost Actions

2009 Savings Objective	\$300M
Q3 2009 Savings	~ \$150M

**SAG:** realigned marketing, HR and training infrastructure; reductions in Finance, IT

### Gross Margin

- Technical service and managed services efficiencies
- Site consolidation

**RD&E:** Integrated development and engineering

- \$100M – transportation and product cost
- \$100M – labor related savings
  - Hiring freeze / capture attrition
  - No salary increases
  - Suspend US 401(k) match / equivalent actions internationally
- \$100M – travel, facilities, other non-labor

# Appendix

# Non-GAAP Financial Measures

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

**“Guidance/Full year 2009 Guidance”:** We have provided our outlook without including fourth quarter costs associated with the acquisition of ACS, which cannot be specifically quantified at this time.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods’ results against the corresponding prior periods’ results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP.