

Dear Shareholder,

Thank you for your investment and continued interest in Xerox. In this letter, I will provide the strategic rationale behind some of our recent operating and financial initiatives, as well as an update on Q2 2023 results and our upwardly revised 2023 guidance.

In the past year, Xerox has taken a series of actions to bolster our operating and financial discipline. These actions provide the foundation from which we can pursue growth opportunities associated with an evolving hybrid workplace in Print, Digital and IT services. A summary of key actions and our growth objectives is below.

- **Operating discipline.** We institutionalized key productivity learnings from Project Own It, which form the basis of our current operating system. John Bruno joined as COO in November, moving quickly to bolster our strategy and further solidify our operating model. Several transactions, including the donation of PARC and spin outs of businesses incubated at PARC (Novity and Mojave) freed up the financial resources and managerial capacity to focus our R&D spend on advancements in workplace technology solutions. We also increased investments in our employees to better recognize and enable their successes, as they in turn enable our clients' success.
- **Financial discipline.** We have been laser-focused on profitability coming out of the pandemic and resulting supply chain disruptions. We successfully instituted price increases across our portfolio of products and services, continue to work diligently to find incremental operating efficiencies and are placing a greater emphasis on profitable revenue growth. The PARC donation resulted in a flexible approach to R&D, lowering our R&D cost base while maintaining access to world-class research. And the receivable funding agreement signed with HPS improved our free cash flow generation while lowering FITTLE's reliance on Xerox's balance sheet. A reduction of total debt of around \$760 million in the past year provides an important source of capacity to fund future growth opportunities.
- **Growth opportunities.** Client trust and a deep understanding of our clients' businesses and industries provide us with a path to expand clients' share of wallet. As we evolve our business, we will shift our mix of revenue toward services that address a more complex, diverse, hybrid work environment. Success along this path will be driven by a services-led, software-enabled approach to improving clients' business outcomes and a brand strategy more closely aligned with a repositioned Xerox.

Recapping Q2 results, balanced execution across the company drove another quarter of solid performance. Revenue grew in constant currency for the fifth consecutive quarter, adjusted operating profit margin expanded meaningfully year-over-year, and free cash flow grew on a year-over-year basis, aided by incremental sales of finance receivables. Consistent with recent quarters, improvement across all metrics reflected better product availability and product mix, continued resilience in demand for our products and services and rigorous operating discipline.

- Total revenue grew 0.5 % in constant currency. Equipment revenue grew 14 % in constant currency, driven by better product supply, favorable mix and pricing actions. As expected, our backlog has returned to normalized levels, due to improvements in supply chain conditions and our efforts to mitigate supply chain disruptions. We are no longer providing detailed backlog information as part of our quarterly results.
- Post sale revenue declined 3 % in constant currency, due primarily to non-contractual items. Post-sale declines were driven by lower IT hardware and paper sales, lower finance income, and the cessation of Fuji royalties and PARC revenue. Contractual Print & Digital Services, our largest and most stable source of revenue, was down slightly as growth in digital services and the benefits of price increases were offset by a slight decline in our service fleet.
- Adjusted operating margin improved 410 basis points year-over-year, reflecting improvements in revenue and product mix, lower logistics costs and the benefits of recent price and cost actions.

Finally, on guidance, we made no change to our revenue guidance of "flat to down low single-digits in constant currency". Guidance reflects a stable demand environment with a contingency for macroeconomic uncertainty.

In the past three months, the macroeconomic outlook has improved, as has momentum in signings for our services. As a result, we now expect full-year revenue to be at the upper end of our guided range.

We increased adjusted operating income margin guidance by 50 basis points, to a range of 5.5 % to 6.0 %. The increase reflects a stronger-than-expected realization of operating efficiencies year-to-date and a favorable revenue mix in the first half. As with revenue, a certain degree of macroeconomic uncertainty is reflected through the range of guided outcomes.

Last, we increased our free cash flow guidance from “at least \$500 million” to “at least \$600 million”, due to improvements in expected operating income for the year and incremental sales of finance receivables.

In summary, our financial results and improved outlook validate that we are on the right path with our focus on three strategic priorities: Client Success, Profitability, and Shareholder Returns. It is the early days of a reinvention of the company, but progress is already apparent; and our strengthened operating and financial model provide the foundation from which we can grow as we help clients solve their most pressing workplace challenges.

I appreciate your continued investment in Xerox and look forward to future interactions.

Xavier Heiss, Chief Financial Officer

For more information concerning our second-quarter 2023 earnings and information concerning our non-GAAP metrics and forward-looking statements, please refer to our earnings release.

[Xerox Releases Second Quarter Results](#)

[Q2 2023 Earnings Presentation](#)