

Xerox Holdings Corporation

Recommendation **HOLD** ★★☆☆☆

Price
USD 35.52 (as of Jan 24, 2020 4:00 PM ET)

12-Mo. Target Price
USD 38.00

Report Currency
USD

Investment Style
Mid-Cap Growth

Equity Analyst David Holt

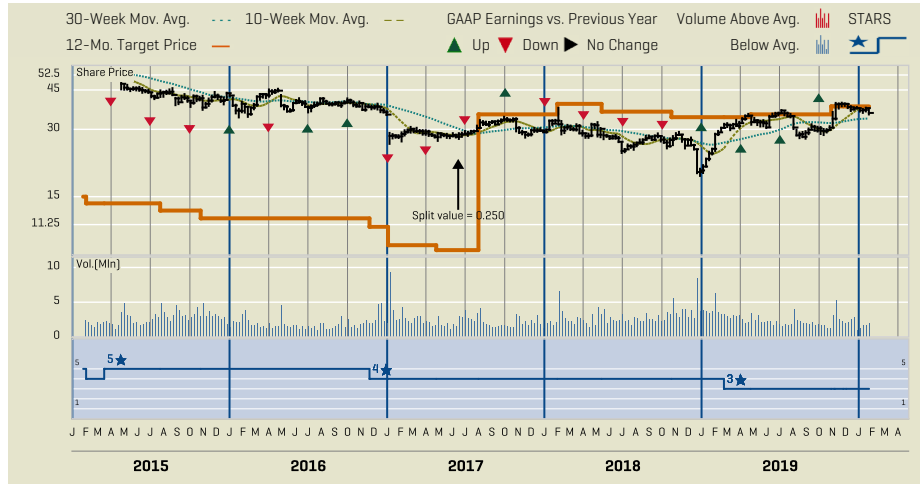
GICS Sector Information Technology
Sub-Industry Technology Hardware, Storage & Peripherals

Summary Xerox serves the worldwide document processing market, offering a complete line of copiers, printers, other office equipment and higher growth document technology.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	USD 39.47 - 24.02	Oper. EPS 2019E	USD 3.32	Market Capitalization(B)	USD 7.679	Beta	1.77
Trailing 12-Month EPS	USD 2.83	Oper. EPS 2020E	USD 3.70	Yield (%)	2.82	3-Yr Proj. EPS CAGR(%)	10
Trailing 12-Month P/E	12.53	P/E on Oper. EPS 2019E	10.70	Dividend Rate/Share	USD 1.00	SPGMI's Quality Ranking	B
\$10K Invested 5 Yrs Ago	\$10,813	Common Shares Outstg.(M)	216.19	Institutional Ownership (%)	90		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **David Holt** on Dec 04, 2019 04:14 PM, when the stock traded at **USD 38.25**.

Highlights

- ▶ XRX's recalibrated outlook, which now reflects the restructured relationship with FUJIFILM, calls for a 5% drop in 2019 revenues on a constant currency basis and aligned with 2018 declines. We think performance improves throughout 2019 on uptake of high-end presses (Iridesse machines) and moderating pressure in the OEM business. We think XRX's simplified strategy (Project Own It) drives placement growth (new business) and protects market share, which should help plug top-line weakness, while new investments open new and adjacent markets (services and software).
- ▶ Attempts by prior management to implement cost takeout programs have proven ineffective in translating to earnings leverage. That said, plans by the current team have started to drive tangible results, as operating margin expanded 120 bps to 12.1% in Q3. Project Own It is expected to drive \$640M in cost savings for 2019, translating to a higher operating margin compared to the year prior (12.8% vs. 11.6%).
- ▶ We think XRX's recently updated EPS outlook (we see \$3.32 in 2019) will serve as a baseline as a portion of the proceeds from the Fuji deal are used to support earnings via share buybacks.

Investment Rationale/Risk

- ▶ XRX's well-executed plan in early 2019 drove stability into margins, leading to earnings expansion and a large rally in shares, which resulted in our downgrade to Hold earlier this year. Going forward, investor focus likely shifts from containing costs to the overall ability to stem top-line declines following the large step-up in organic growth investments. We remain cautious around the timing of revenue improvements, especially if progress around a merger with Hewlett Packard were to advance. In our view, this would refute XRX's original plan of flat-to-growing revenues by 2021 and indirectly tells us that the path towards organic growth could be further off than originally expected.
- ▶ Risks to our rating and target include the potential for challenges related to its newly established company goals, product rollouts and/or complications with XRX's ongoing strategic actions.
- ▶ Our 12-month target of \$38 is 10.3x our 2020 EPS view, below peers. We think some prospects remain encouraging, as FCF over the next three years (\$3B) provide a proxy for fundamentals, while recently upped buybacks [\$600M+] and the dividend [2.6%] buy time to drive change.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH
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Xerox operates in the office electronics industry, marked by lively price and marketing competition for printer, copier, scanner and multi-function products. It also operates in the higher growth technology and outsourcing areas.

Revenue/Earnings Data

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2019	2,206	2,289	2,200	--	--
2018	2,435	2,510	2,352	2,533	9,830
2017	2,454	2,567	2,497	2,747	10,265
2016	2,615	2,793	2,629	2,734	10,771
2015	4,469	4,590	4,333	-1,927	11,465
2014	4,771	4,941	4,795	5,033	12,679

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2020	E 0.82	E 0.87	E 0.90	E 1.11	E 3.70
2019	0.55	0.77	0.96	E 1.07	E 3.32
2018	0.07	0.42	0.33	0.55	1.38
2017	0.16	0.63	0.67	-0.78	0.70
2016	0.23	0.75	0.66	0.69	2.33
2015	0.64	0.36	-0.16	2.21	2.97

Fiscal year ended Dec 31. Next earnings report expected: Late Jan. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.25	Oct 24	Dec 30	Dec 31	Jan 31 '20
0.25	Aug 28	Sep 27	Sep 30	Oct 31 '19
0.25	May 21	Jun 27	Jun 28	Jul 31 '19
0.25	Feb 21	Mar 28	Mar 29	Apr 30 '19

Dividends have been paid since 2008. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.

Forecasts are not reliable indicator of future performance.

Business Summary September 13, 2019

CORPORATE OVERVIEW. Xerox is a large operator in the global document markets, providing document equipment, such as printing and publishing systems, digital copiers, laser and solid ink printers, fax machines, and digital multi-functional devices, which can print, copy, scan and fax. Increasingly, the company has also aimed at related service markets, including traditional supplies and printer support as well as newer areas, such as document management and business processes.

The company operates in more than 160 countries and derived about 59% of revenues in 2018 from the U.S., 27% from Europe and 14% from other areas. The company has manufacturing plants in the U.S. and Europe and it also outsources manufacturing via a multi-year master supply agreement with Flex LTD. The company owns 25% of Fuji Xerox, an unconsolidated subsidiary.

XRX operates in two segments, which include post-sale and equipment. XRX's post-sale segment, which is comprised of services, maintenance, rental, supplies and financing revenue comprised the other 78% of total revenues in 2018. Equipment sales, which include entry, mid-range and high-end printers made up the other 22% of revenues in 2018.

IMPACT OF MAJOR DEVELOPMENTS. In February 2010, Xerox completed its acquisition of Affiliated Computer Services [ACS]. The company paid approximately \$6.4 billion in stock and cash for ACS, assumed about \$2 billion of debt and issued about \$300 million of convertible preferred stock. The final deal terms were 4.935 shares of XRX stock and \$18.60 cash for each share of ACS Class A common stock, and the same, plus a fraction of a share of a new series of Xerox preferred stock, for each share of ACS Class B common stock.

In June 2015, XRX completed the sale of its IT outsourcing business to Atos, in a transaction valued at \$1.1 billion (including the assumption of \$100 in capital lease obligations and pension liabilities). Total after-tax proceeds that went to XRX was approximately \$850 million.

In early 2016, XRX announced plans to separate its Document Technology and Business Process Outsourcing segments. This followed the November 2015 announcement of Carl Icahn and Icahn Capital disclosing a 7.1% position in the company, a stake later increased to 9.8%. The company separation was completed at the end of 2016. Following the planned spin-off, Jeff Jacobson took over the existing copier business as CEO [XRX], while Ashok Vemuri is the planned CEO of the Business Outsourcing unit [CNDT].

Later in December 2017, details surfaced around a potential merger between XRX and Fujifilm, that major shareholders Carl Icahn and Darwin Deason (held a combined 15% stake in the company at the time) opposed. As a result, Jeff Jacobson was replaced with John Visentin as CEO of the company in May 2018.

MARKET PROFILE. XRX estimates its core print technology and services market opportunity that is sized at around \$67 billion. Primary offerings in this space are spread over three main areas: Intelligent Workplace Services [formerly Managed Document Services or MDS], Workplace Solutions and Production Solutions [formerly Graphic Communications]. XRX also estimates its ConnectKey software platform competes in a digital solutions and software market that is sized at around \$31 billion.

Larger competitors include Canon, Hewlett-Packard Inc., Konica Minolta and Ricoh. XRX believes its brand recognition, reputation for document management expertise, innovative technology and service delivery excellence are competitive advantages. XRX competes based on technology, performance, price, quality, reliability, brand and support.

CORPORATE STRATEGY. Under new leadership, XRX plans to maintain overall leadership in its core market and increase participation in the growth areas, while expanding into adjacent markets by leveraging new and existing capabilities. In the second half of 2018, XRX rolled out a transformation project -- "Project Own It" -- centered on creating a simpler, more agile and effective organization to enhance their focus on customers and partners, instill a culture of continuous improvement and improve financial results.

Under the new project, optimizing operations [by simplifying the operating model], driving an improved revenue profile [sell more higher-value services and expand software offerings], re-energizing innovation [by capitalizing on analytics and IoT] and focusing on cash flow and higher capital returns [50% of annualized FCF to shareholders] are key focus areas.

FINANCIAL TRENDS. Revenue of \$9.8 billion in 2018 decreased 4.2% from the prior year, including a 0.7-point favorable impact from currency. The decrease in revenue reflected a 4.1% decrease in Equipment sales and 4.3% decrease in Post sale revenue. Lower OEM sales, page volumes and pricing pressure all contributed to the declines.

Adjusted operating margin for 2018 was 12.9%, 20 basis points higher than prior-year levels, primarily reflecting cost productivity and savings from business transformation actions and lower compensation expense. On an adjusted basis, net income from continuing operations was \$3.46 per share, which includes adjustments for unusual or infrequent items, including the impact from the Tax Act.

At year-end 2018, XRX had about \$5.2 billion in debt and \$1.3 billion in cash and equivalents. Like some other large technology hardware companies, XRX provides customer financing, which accounts for a large portion of debt at \$3.4 billion. Core debt was ~\$1.8 billion and pensions amounted to ~\$1.2 billion [net funded status of ~88%]. XRX generated \$1.05 billion in free cash flow in 2018, of which \$969 million was returned to shareholders via buybacks and dividends.

Corporate Information

Investor Contact

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Officers

President & COO

S. J. Bandrowczak

Executive VP & CFO

W. F. Osbourn

VP & Chief Accounting Officer

J. H. Mancini

Chairman of the Board

K. Cozza

Executive VP & General Counsel

L. J. Pastor

Senior VP & CTO

N. Shanker

Vice Chairman & CEO

G. G. Visentin

Board Members

A. S. Letier

C. G. Krongard

G. G. Visentin

J. Christodoro

J. J. Echevarria

K. Cozza

N. F. Graziano

R. M. Ugale

S. Carey

Domicile

New York

Founded

1906

Employees

32,400

Auditor

PricewaterhouseCoopers LLP

Xerox Holdings Corporation

Quantitative Evaluations					Expanded Ratio Analysis						
Fair Value Rank	5	1	2	3	4	5					
		LOWEST				HIGHEST					
		Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].									
Fair Value Calculation	USD 45.97	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that XRX is undervalued by USD 10.45 or 29.4%.									
Volatility		LOW	AVERAGE	HIGH							
Technical Evaluation	BULLISH	Since January, 2020, the technical indicators for XRX have been BULLISH.									
Insider Activity		UNFAVORABLE	NEUTRAL	FAVORABLE							
							2018	2017	2016	2015	
							Price/Sales	0.51	0.73	0.83	1.00
							Price/EBITDA	3.59	5.38	5.92	7.06
							Price/Pretax Income	7.88	10.92	12.86	11.07
							P/E Ratio	14.32	41.65	14.99	14.32
							Avg. Diluted Shares Outsg. (M)	252	257	256	269
							Figures based on fiscal year-end price				
Key Growth Rates and Averages											
							Past Growth Rate [%]				
								1 Year	3 Years	5 Years	
							Sales	-4.24	-5.00	-13.25	
							Net Income	85.13	-6.94	-20.81	
Ratio Analysis [Annual Avg.]											
							Net Margin [%]		NM	NM	
							% LT Debt to Capitalization	40.72	NA	NA	
							Return on Equity [%]	6.95	NA	NA	

Company Financials Fiscal year ending Dec. 31										
Per Share Data (USD)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tangible Book Value	3.33	3.33	1.60	17.82	-4.03	-2.21	-5.23	-3.18	-2.18	NA
Free Cash Flow	4.17	-1.53	2.51	5.41	6.46	6.28	6.28	4.14	6.63	NA
Earnings	1.38	0.70	2.33	2.97	3.44	3.58	3.40	3.53	1.73	NA
Earnings (Normalized)	2.21	2.18	2.23	2.24	2.65	2.74	2.90	2.85	2.65	NA
Dividends	1.00	1.00	1.24	1.12	1.00	0.92	0.68	0.68	0.68	NA
Payout Ratio [%]	75	149	NM	73	31	26	21	20	38	NA
Prices: High	37.42	34.13	45.56	56.60	57.44	49.12	35.36	47.16	48.32	39.00
Prices: Low	18.57	25.84	33.92	36.68	41.04	27.88	24.40	26.20	30.68	16.48
P/E Ratio: High	27.1	48.8	19.6	19.1	16.7	13.7	10.4	13.4	27.9	17.6
P/E Ratio: Low	13.5	36.9	14.6	12.4	11.9	7.8	7.2	7.4	17.7	7.5
Income Statement Analysis (Million USD)										
Revenue	9,830	10,265	10,771	11,465	12,679	20,006	20,421	21,900	21,633	NA
Operating Income	986	936	1,027	1,124	1,381	1,504	1,690	1,838	1,764	NA
Depreciation + Amortization	401	454	482	497	541	1,020	1,026	1,097	707	NA
Interest Expense	112	119	181	216	226	240	229	247	346	NA
Pretax Income	631	685	695	1,033	1,250	1,412	1,436	1,684	893	NA
Effective Tax Rate	40.7	70.2	8.9	18.7	15.8	17.9	17.8	22.4	28.7	NA
Net Income	361	195	-471	448	1,013	1,159	1,195	1,295	606	NA
Net Income (Normalized)	555	560	572	603	776	873	963	1,027	895	NA
Balance Sheet and Other Financial Data (Million USD)										
Cash	1,084	1,293	2,223	1,228	1,411	1,764	1,246	902	1,211	NA
Current Assets	4,695	5,230	6,992	6,685	8,874	8,511	8,273	7,912	8,639	NA
Total Assets	14,874	15,946	18,051	25,541	27,658	29,036	30,015	30,116	30,600	NA
Current Liabilities	3,251	2,741	4,654	5,254	6,076	5,686	5,910	6,381	6,417	NA
Long Term Debt	4,269	5,235	5,305	6,317	6,314	6,904	7,447	7,088	7,887	NA
Total Capital	10,483	11,024	11,277	16,745	18,843	20,789	20,502	21,007	21,765	NA
Capital Expenditures	90	105	138	84	119	346	388	338	355	NA
Cash from Operations	1,140	-267	798	1,611	2,063	2,375	2,580	1,961	2,726	NA
Current Ratio	1.44	1.91	1.50	1.27	1.46	1.50	1.40	1.24	1.35	NA
% Long Term Debt of Capitalization	40.7	47.5	47.0	37.7	33.5	33.2	36.3	33.7	36.2	NA
% Net Income of Revenue	3.67	1.90	-4.37	3.91	7.99	5.79	5.85	5.91	2.80	NA
% Return on Assets	4.00	3.44	2.94	2.64	3.04	3.18	3.51	3.78	4.04	NA
% Return on Equity	6.95	3.90	8.78	8.17	8.81	9.35	9.68	10.51	6.47	NA

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Xerox Holdings Corporation

Sub-Industry Outlook

Our fundamental outlook for the Technology Hardware, Storage & Peripherals sub-industry for the next 12 months is positive. We see better times in 2020 after a challenging 2019 calendar year, led by advancements in 5G, demand for wearables, and new services capabilities driving interest for next generation devices.

We expect the smartphone space to rebound 3% in 2020 after our projection for a 2% decline in 2019 and a 4% decline in 2018. We acknowledge the potential for the iPhone 11 upgrade cycle to disappoint in the coming quarters, as customers hold off on purchases ahead of a 5G device launch in 2020. However, we see easier comparables ahead in China and like Apple's lower entry price on the iPhone 11 as well as greater focus on cameras and longer battery life. We remain optimistic about penetration within the smartwatch category and like 5G device initiatives by both Samsung and Huawei, while Apple waits until the fall of 2020. Although we envision a no-growth environment for iPhones until late 2020, we believe 5G will help support a boost in demand and improve replacement cycles within the broader smartphone space. While average selling prices for smartphones are flat to down for most vendors in 2019, we see industry prices increasing in 2020, driven by the ongoing shift by high-end phone manufacturers to offer consumers more features and greater costs associated with producing a 5G device.

We expect revenue for Personal Computers to decline by about 5% in 2020 after a low single digit percentage growth environment in 2019. Demand in recent years has been stable, partly reflecting the ongoing enterprise transition to Windows 10 (Windows 7 support ends in 2020), with commercial notebooks being the biggest beneficiary. However, annual PC shipments are still down more than 25% from peak levels in

2011. While we see opportunities related to thinner and lighter devices as well as from gaming, we think longer replacement cycles will likely hinder growth for the space. Wearables shipment growth will likely be 10% to 15% through 2021, by our estimates, driven by greater focus on fitness and health care features.

Demand for data storage will be driven by content digitization of old media, such as paper and film, the growing popularity of social networking websites and longer record retention for compliance with government regulations, in our view. We think the storage software market will be driven by business continuity and disaster recovery efforts, compliance and risk management activities and the increasing prevalence of data mining and related analytics. We see demand for traditional storage offerings declining in the foreseeable future, while products related to all-flash arrays are seeing growing momentum within the data center space.

We foresee growing demand for Internet-based computing solutions because they offer companies opportunities to reduce costs and improve customer service. Accordingly, servers and data-center computing hardware should benefit from rising demand. However, we also see price competition in servers. We think that hardware vendors have been seeking to offset the negative impact on profits by offering higher-margin services, software and storage products.

Year-to-date through January 17, 2020 the S&P 1500 Technology Hardware, Storage & Peripherals Index increased 8.1%, while the S&P 1500 rose 2.9%. The S&P 1500 Technology Hardware, Storage & Peripherals Index increased 79% in 2019, while the S&P 1500 rose 28.3%.

/Angelo Zino, CFA

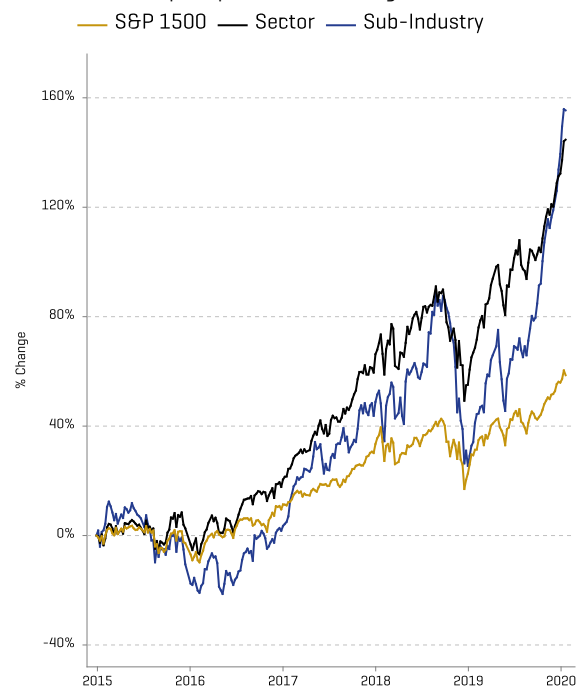
Industry Performance

GICS Sector: Information Technology

Sub-Industry: Technology Hardware, Storage & Peripherals

Based on S&P 1500 Indexes

Five-Year market price performance through Jan 25, 2020



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: Technology Hardware, Storage & Peripherals Peer Group*: Technology Hardware, Storage & Peripherals

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
Xerox Holdings Corporation	XRX	NYSE	USD	35.52	7,679	-5.0	48.5	13	45.97	2.8	7.0	40.7
Avid Technology, Inc.	AVID	NasdaqGS	USD	8.860	381	6.0	90.5	NM	NA	Nil	4.9	398.7
Diebold Nixdorf, Incorporated	DBD	NYSE	USD	10.47	804	-4.4	152.3	NM	NA	Nil	NM	98.9
Konica Minolta, Inc.	KNCA.Y	OTCPK	USD	12.99	3,216	0.1	-33.3	NM	NA	4.2	7.6	29.3
Lenovo Group Limited	LVNG.Y	OTCPK	USD	14.49	8,703	8.9	0.1	1	NA	5.0	30.4	57.3
Logitech International S.A.	LOGI	NasdaqGS	USD	48.13	8,132	2.8	35.4	30	NA	1.5	23.1	NA
NCR Corporation	NCR	NYSE	USD	34.65	4,421	-0.9	33.5	82	26.63	Nil	-2.4	67.2
NetApp, Inc.	NTAP	NasdaqGS	USD	59.81	13,650	-4.9	-3.5	15	63.68	3.2	69.5	39.7
Ricoh Company, Ltd.	RICO.Y	OTCPK	USD	11.60	8,403	8.6	13.6	NM	NA	2.1	5.5	34.1
Seiko Epson Corporation	SEKE.Y	OTCPK	USD	7.479	5,177	-1.4	-1.0	NM	NA	3.8	10.2	17.5
Stratasys Ltd.	SSYS	NasdaqGS	USD	20.09	1,094	-2.1	-6.7	NM	NA	Nil	-1.0	1.9

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Xerox Holdings Corporation**Analyst Research Notes and other Company News****December 03, 2019**

02:22 pm ET... CFRA Reiterates Hold Opinion on Shares of Xerox Corporation [38.02***]: We keep our 12-month target of \$38 on 10.3x our '20 EPS estimate, below peers, supported by uncertainty around the next step in XRX's strategy to plug revenue weakness. We reduce our '19 EPS estimate to \$3.32 from \$4.03 and '20's EPS to \$3.70 from \$4.19. XRX updated its full-year 2019 EPS outlook to a range of \$3.30-\$3.40 from \$4.00-\$4.10 to reflect the impact of the restructured relationship with FUJIFILM Holdings. Under the new measures, the partnerships involved in the transaction will now be reported as discontinued operations. The largest drag and cause of the recalibrated outlook was due to the sale of the equity interest in Fuji Xerox [\$0.85 impact], but will be partially offset by the inclusion of a one-time upfront license fee paid by Fuji to XRX [\$0.25 impact]. The revised assumption does not include any potential use of the \$2.3B in after-tax proceeds. As such, we think accelerated buybacks are likely deployed to buy time for management to pursue M&A opportunities. /David Holt

November 26, 2019

01:56 pm ET... CFRA Keep Hold Opinion on Shares of Xerox Corporation [38.65***]: Today, XRX sent a response letter to Hewlett Packard's [HPQ] board in response to the rejected proposal to acquire HPQ for \$22/share in cash and stock, stating XRX will take the bid directly to HPQ shareholders. We are not convinced that the heavy-handed approach will work, as more appealing deal terms could be needed. We also think that HPQ shareholders will need further evidence that XRX's strategy to drive a resumption in top-line growth holds merit, given the stock portion of the deal terms. Lastly, HPQ's reservations detailed in its response letter on November 24, 2019 around the abrupt restructuring of the longstanding relationship with FUJIFILM is warranted, we think. While the \$2.3B in after-tax proceeds is a positive, ramifications from the deal could expose XRX's limited overseas reach to higher-growth markets [Asia-Pac] and further reduce the margin for error, especially if actions to drive high-end equipment and post-sales growth don't materialize in 2020 as expected. /David Holt

November 07, 2019

11:03 am ET... CFRA Keep Hold Opinion on Shares of Xerox Corporation [37.66***]: More details have surfaced around the potential merger between Xerox Holdings [XRX] and Hewlett Packard [HPQ]. According to an unconfirmed report on CNBC, XRX has made an offer to buy HPQ for \$22 in cash [\$17/share] and stock [0.137 XRX shares for each HPQ share]. The deal is earmarked to generate \$2B in cost savings and will result in HPQ shareholders owning 48% of the company. Details also project pro-forma leverage [net debt-to-EBITDA] of approximately 5x upon close and 3x within the first two years, as free cash flow of \$5B+ allows the combined entity to swiftly pay down debt. Although we still think consolidation in the space is needed and the deal makes sense strategically, we remain skeptical of what this indirectly tells us about how XRX's plan of flat-to-growing revenues by 2021 disclosed at its recent analyst day is progressing. The potential deal is likely accretive but generating growth from markets in structural declines could be a stretch. /David Holt

November 06, 2019

10:36 am ET... CFRA Keep Hold Opinion on Shares of HP Inc. [20.25***]: According to an unconfirmed WSJ report, Xerox Holdings [XRX] is considering making a cash-and-stock offer for HPQ. We note that XRX's market cap stands at around \$8.3B compared to HP at nearly \$29B. It is also believed that XRX received an informal funding commitment from a major bank [Bloomberg cites Citigroup]. While we note the big discrepancy in market capitalization between the two firms, we think a deal is still realistic possibility. XRX will receive \$2.3B from the sale of its stake in Fujifilm Holdings while HPQ has nearly \$5B in cash on hand, which provides some financial support to the deal. We also believe that a potential combination could generate well over \$5B in annual free cash flow, with upside should significant cost synergies be realized. While shares are up nearly 10%, we think risks remain but believe consolidation in the space is much needed. We would view HPQ being acquired as the best possible outcome for shareholders given our negative outlook on prospects. /Angelo Zino, CFA

November 05, 2019

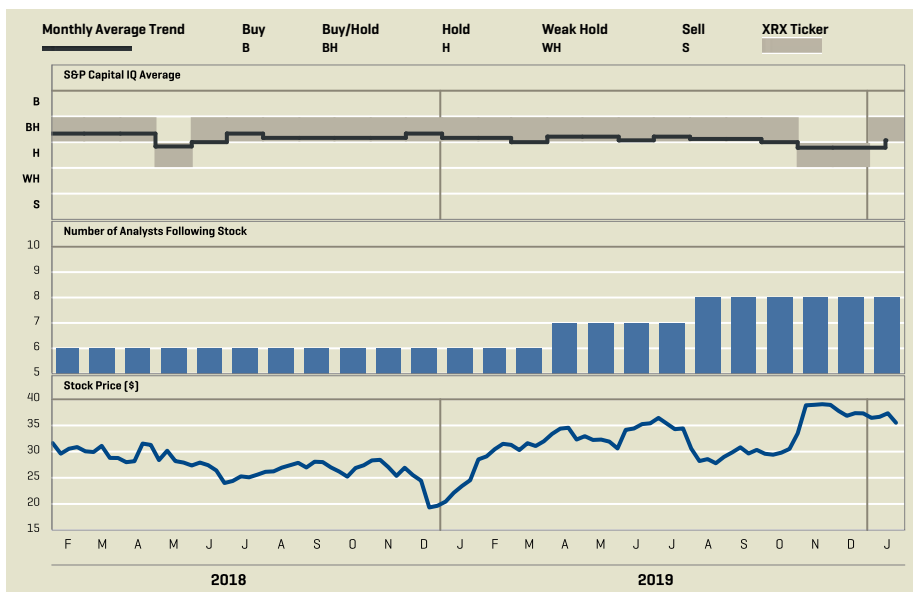
03:45 pm ET... CFRA Keeps Hold Recommendation on Shares of Xerox Corporation [36.56***]: Today, XRX announced it has restructured the longstanding relationship with FUJIFILM Holdings Corporation and that it will receive \$2.3B in after-tax proceeds. XRX expects to use proceeds to pursue M&A in select industries, return capital to shareholders and pay down its \$550M debt maturity due in December. Terms of the agreement include the sale of XRX's 25% stake in Fuji Xerox [FX], a subsidiary of FUJIFILM and the sale of a 51% stake in Xerox International Partners [XIP] to an affiliate of FX, which will allow FX to manufacture hardware products for existing customers of XIP for fixed royalties. Lastly, the \$1B lawsuit FUJIFILM filed against XRX following last year's botched merger will also be dropped. We positively view the financial implications of the agreement, as the proceeds should help provide dry powder to inorganically drive revenue growth for 2020. XRX plans to update its full-year 2019 outlook later in December assuming timely deal closures. /David Holt

October 29, 2019

04:16 pm ET... CFRA Keeps Hold Recommendation on Shares of Xerox Corporation [34.4***]: We raise our 12-month target by \$3 to \$38 on 9.1x our '20 EPS estimate, below peers, on past growth challenges. We lift our '19 EPS estimate to \$4.03 from \$3.84 and '20's EPS to \$4.19 from \$4.05. XRX posts Q3 EPS of \$1.08 vs. \$0.85, above consensus by \$0.21 on improved operations, share buybacks and asset sales. Revenues were down 6.5% [5.3% at constant FX] to \$2.2B, edging out consensus by \$7M, despite a 70-bps headwind from the wind-down of OEM business sales. Equipment sales were down 3.3%, which was better than expected, on demand for high-end Iridesse presses. Sequential sales improvement into Q3 and expectations of these trends continuing into Q4 drove shares higher today. Cost control measures [Project Own It], which drove the 2019 EPS revision [\$4.05 vs. \$3.88 midpoint] are largely reflected in today's share price, in our view. We think XRX's decision to retain its Consumer Financing division also conveys confidence around prior investments driving future revenue growth. /David Holt

Xerox Holdings Corporation

Analysts' Recommendations



Wall Street Consensus Opinion

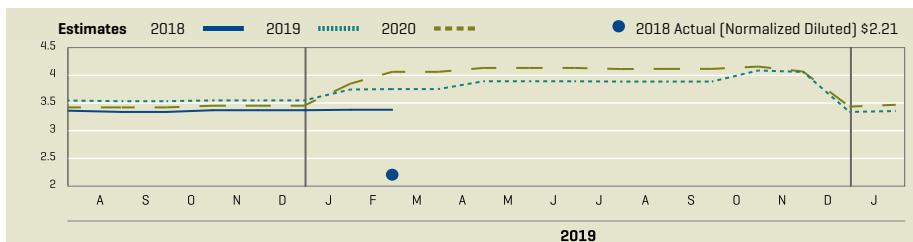
BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that XRX will earn USD \$3.35. For the 3rd quarter of fiscal year 2019, XRX announced earnings per share of USD \$0.96, representing 28.7% of the total revenue estimate. For fiscal year 2020, analysts estimate that XRX's earnings per share will grow by 4% to USD \$3.47.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	2	25	1	2
Buy/Hold	1	13	1	1
Hold	3	38	4	4
Weak Hold	1	13	1	1
Sell	0	0	0	0
No Opinion	1	13	1	0
Total	8	100	8	8

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2020	3.47	3.51	3.37	6	10.2
2019	3.35	3.42	3.30	6	10.6
2020 vs. 2019	▲4%	▲3%	▲2%	0%	▼-4%
Q4'20	1.03	1.16	0.96	5	34.4
Q4'19	1.08	1.18	0.98	5	32.9
Q4'20 vs. Q4'19	▼-5%	▼-2%	▼-2%	0%	▲5%

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Xerox Holdings Corporation

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index [S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index]), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
 EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations

FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

Xerox Holdings Corporation

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STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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The methodologies used in STARS Stock Reports and Quantitative Stock Reports (collectively, the "Research Reports") reflect different criteria, assumptions and analytical methods and may have differing recommendations. The methodologies and data used to generate the different types of Research Reports are believed by the author and distributor reasonable and appropriate. Generally, CFRA does not generate reports with different ranking methodologies for the same issuer. However, in the event that different methodologies or data are used on the analysis of an issuer, the methodologies may lead to different views or recommendations on the issuer, which may at times result in contradicting assessments of an issuer. CFRA reserves the right to alter, replace or vary models, methodologies or assumptions from time to time and without notice to clients.

STARS Stock Reports:

Global STARS Distribution as of December 31, 2019

Ranking	North America	Europe	Asia	Global
Buy	33.4%	29.0%	41.1%	33.5%
Hold	56.1%	54.8%	46.4%	54.6%
Sell	10.5%	16.2%	12.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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