

## Xerox Corporation (XRX)

**\$15.73** (As of 07/02/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

### Summary

Xerox's bottom line is benefiting from "Project Own It," an initiative aimed at increasing productivity and operational efficiency, reducing costs and realigning business to changing market conditions. It has an aggressive product development program in new high growth markets. Its post-sale driven business model provides significant cash generation capacity. Xerox has expanded its Small and Mid-sized coverage through distribution acquisitions. Reorganization under a new holding company should help the company attain greater strategic, operational and financial flexibility. However, Xerox continues to grapple with decreased demand for paper-related systems and products. Its revenues have declined over years. Due to these negatives, the stock has declined significantly over the past year.

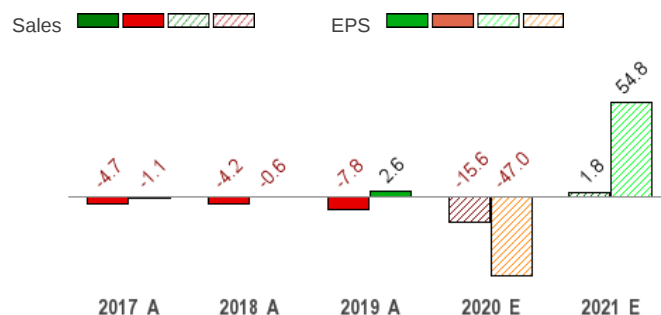
### Price, Consensus & Surprise



### Data Overview

|                            |                                 |
|----------------------------|---------------------------------|
| 52 Week High-Low           | \$39.47 - \$14.22               |
| 20 Day Average Volume (sh) | 4,110,389                       |
| Market Cap                 | \$3.3 B                         |
| YTD Price Change           | -57.3%                          |
| Beta                       | 1.62                            |
| Dividend / Div Yld         | \$1.00 / 6.4%                   |
| Industry                   | <a href="#">Office Supplies</a> |
| Zacks Industry Rank        | Top 15% (38 out of 252)         |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -52.3%     |
| Last Sales Surprise       | 6.0%       |
| EPS F1 Est- 4 week change | 0.0%       |
| Expected Report Date      | 08/04/2020 |
| Earnings ESP              | 0.0%       |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 |         |         |         |         | 7,787 E |
| 2020 | 1,860 A | 1,760 E | 1,900 E | 2,203 E | 7,652 E |
| 2019 | 2,206 A | 2,289 A | 2,200 A | 2,444 A | 9,066 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.48 E | \$0.63 E | \$0.70 E | \$1.14 E | \$2.91 E |
| 2020 | \$0.21 A | \$0.25 E | \$0.48 E | \$0.94 E | \$1.88 E |
| 2019 | \$0.91 A | \$0.99 A | \$1.08 A | \$1.33 A | \$3.55 A |

\*Quarterly figures may not add up to annual.

|         |     |
|---------|-----|
| P/E TTM | 4.4 |
| P/E F1  | 8.4 |
| PEG F1  | NA  |
| P/S TTM | 0.4 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/02/2020. The reports text is as of 07/03/2020.

## Overview

Despite experiencing top-line decline over the years on decreased demand for paper-related systems and products, Norwalk, Connecticut-based Xerox remains a leader in the contractual print and document services market.

Post reorganization (that does not involve any change in operations, directors and executive officers) as a wholly-owned subsidiary of a new holding company in 2019, the company is trying to attain greater strategic, operational as well as financial flexibility.

Xerox deploys an aggressive product-development program to revive sales. It has developed one of the industry's strongest portfolios of managed print service (MPS) solutions and services.

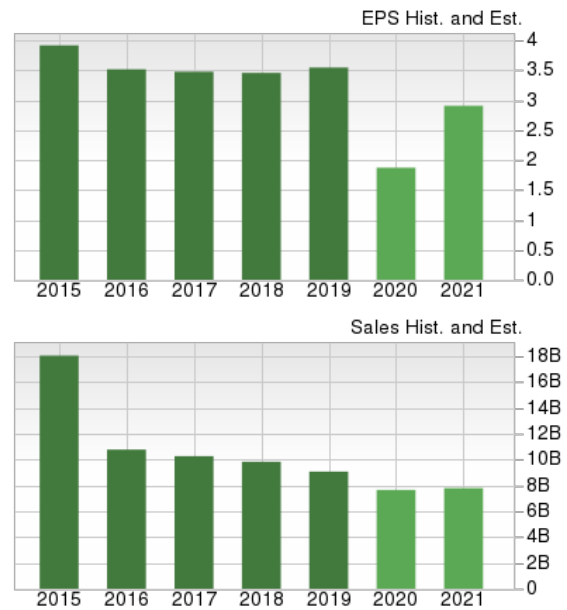
Xerox's strategy is to use data-centric technologies to better help customers in their digital transformation journey, taking advantage of the changing market conditions. The company is trying to offer end-to-end management of the entire office print infrastructure. It focuses on market trends, such as cloud, analytics, digital and security, with a view to effectively address customer needs.

The company is using security and digital transformation as key competitive differentiators. A global service delivery model, flexibility and scalability of MPS services and billing options, and close relationships with customers and partners are its key strengths. Programs like Virtual Print and FedRAMP authorization are helping the company broaden its market opportunities.

Xerox's bottom line is benefiting from "Project Own It," an initiative aimed at increasing productivity and operational efficiency, reducing costs and realigning business to changing market conditions. It produced \$640 million in cost savings through the project in 2019.

An aggressive business strategy of Xerox makes sense as it continues to operate in a highly competitive market. It competes based on technology, price, performance, quality, reliability, distribution, brand and customer service and support. The largest competitors include Hewlett-Packard, Canon, Konica Minolta and Ricoh.

The company believes its business strengths are brand recognition, reputation for document management expertise, innovative technology and service delivery excellence.



---

## Reasons To Buy:

- ▲ Xerox has **reorganized** as a wholly-owned subsidiary of a new holding company. The reorganization is aimed at attaining greater strategic, operational as well as financial flexibility and does not involve any change in operations, directors and executive officers. A holding company structure helps to protect patents, reduce tax bill and diversify businesses efficiently. So, the move seems appropriate as Xerox is executing a Strategic Transformation program to achieve productivity and cost reduction. Also, the company has an aggressive product development program in new high growth markets.
- ▲ Xerox has a solid track of record strong margins which it has been attaining through cost and productivity initiatives. The company's bottom line is benefiting from "**Project Own It**," an enterprise-wide transformation initiative aimed at increasing productivity and operational efficiency, reducing costs, as well as realigning business to changing market conditions. Xerox produced \$640 million in cost savings through the project in 2019 and expects to produce another \$450 million in 2020. The company's adjusted operating margin improved 180 basis points year over year to 13.1%.
- ▲ Xerox has a **post-sale driven business model** that provides significant recurring revenue and cash generation. Around 77% of the company's total revenues in 2019 was associated with contracted services, equipment maintenance services, consumable supplies and financing. This business model supports strong cash flows that help the company to make strategic investments and penetrate in markets with high growth potential.
- ▲ Xerox continues to expand its **Small and Mid-sized (SMB) coverage** through acquisitions of local area resellers and partners. In 2019, the company acquired Heritage Business Systems, a Delaware Valley dealer and Rabbit Office Automation, a San Francisco Bay area dealer. These acquisitions have expanded the company's distribution capabilities of office technology sales, services and supplies to SMB customers. Moreover, the company has significantly expanded internationally, with a footprint across approximately 160 countries. We believe expansion of SMB coverage will help Xerox improve its top line going forward.

A post-sale driven business model, strategic-transformation program and acquisition are positives for Xerox.

---

## Reasons To Sell:

- ▼ Advancements in IT have replaced the traditional means of sending and storing information by digital media. As a result, Xerox is **grappling with decreased demand** for paper-related systems and products while its attempts to leverage the business process outsourcing market failed to lend growth momentum.
- ▼ Xerox's debt-to-capital ratio of 0.43 at the end of first-quarter 2020 was higher than the industry's 0.42 and the previous quarter's 0.42. The increasing debt to capitalization ratio indicates that the **proportion of debt to finance the company's assets is on the rise**. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$2.6 million at the end of the first quarter was well below the long-term debt level of \$4.3 billion underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$1,050 million.
- ▼ Another major threat involves the availability of a **large number of substitutes** because of strong peer presence, although there are lesser chances of new entry. Companies like Canon, Hewlett-Packard, Lexmark and Toshiba are capable of giving tough competition to Xerox. Moreover, those companies are also broadening their product lines and strengthening their global presence in almost the same way as Xerox. This has largely affected the profit margin of Xerox.
- ▼ Given its international presence, Xerox faces **unfavorable foreign currency movements**, impacting its top-line growth. For the year 2019, the company's year over year revenue decline of 6.2% included a 1.5% unfavorable impact from currency. This probably weighed on its share price which has decreased 56.9% over the past year.

Xerox is grappling with decreased demand for paper-related systems and products.

## Last Earnings Report

### Xerox's Earnings Miss Estimates in Q1

Xerox reported mixed first-quarter 2020 results, with earnings missing the Zacks Consensus Estimate but revenues beating the same.

Adjusted earnings per share of 21 cents missed the consensus mark by a massive 52.3% and declined year over year. Total revenues of \$1.86 billion surpassed the consensus mark by 6% but declined year over year on a reported as well as constant-currency (cc) basis. The coronavirus pandemic had a significant negative impact on the company's quarterly results.

**Quarter Ending** **03/2020**

|                  |                     |
|------------------|---------------------|
| Report Date      | <b>Apr 28, 2020</b> |
| Sales Surprise   | <b>6.03%</b>        |
| EPS Surprise     | <b>-52.27%</b>      |
| Quarterly EPS    | <b>0.21</b>         |
| Annual EPS (TTM) | <b>3.61</b>         |

### Revenues by Segment

Equipment sales totaled \$325 million, down 27.5% year over year on a reported basis and 27% at cc. The segment contributed 17% to total revenues. Post-sale revenues of \$1.53 billion declined 11.4% year over year on a reported basis and 10.5% cc. The segment contributed 83% to total revenues.

### Revenues by Region

Revenues from the Americas came in at \$1.24 billion, down 12.1% year over year on a reported basis and 11.8% at cc. The region contributed 67% to total revenues. EMEA revenues amounted to \$575 million, down 19.2% year over year on a reported basis and 17.6% at cc. The region contributed 31% to total revenues. Revenues from Other region totaled \$46 million compared with the \$58 million reported in the year-ago quarter. The region contributed 21% to total revenues.

### Operating Performance

Adjusted operating profit of \$87 million plummeted 63.6% year over year. Adjusted operating margin shrunk 630 basis points (bps) year over year to 4.7%. Selling, administrative and general expenses, as a percentage of revenues, declined to 29.1% from the 25.1% reported in the year-ago quarter. Research, development and engineering expenses, as a percentage of revenues, came in at 4.5%, up from the year-ago quarter's 4.2%.

### Balance Sheet and Cash Flow

Xerox exited the first quarter with cash, cash equivalents and restricted cash balance of \$2.7 billion compared with the \$2.8 billion witnessed at the end of the prior quarter. Long-term debt was \$3.2 billion at the end of the March-end quarter. The company generated \$173 million of cash from continuous operations and capex was \$23 million in the reported quarter. Free cash flow was \$150 million. Xerox paid out \$58 million in dividends in the quarter.

## Recent News

On **Jun 25, 2020**, Xerox announced that it has launched Team Availability App that offers quick-to-deploy, customizable, real-time solutions for management of flexible work environments amid the continued coronavirus pandemic.

On **May 22, 2020**, Xerox announced that its board of directors declared a quarterly cash dividend of 25 cents per share, payable on Jul 31, 2020 to shareholders of record on Jun 30, 2020. The board also declared a quarterly cash dividend of \$20 per share on the outstanding Xerox Holdings Corporation Series A Convertible Perpetual Preferred Stock. This dividend will be paid on Jul 1, 2020 to shareholders of record on Jun 15, 2020.

On **Apr 21, 2020**, Xerox announced that it will manufacture around 140,000 gallons of hand sanitizer by June 2020, with deliveries commencing by the end of the month. The move comes on the heels of the company partnering with Vortran Medical Technology to mass-produce the latter's Go2Vent, which is a gas-operated disposable ventilator generally used by the first responders during emergency and disaster situations, and disease outbreaks.

## Valuation

Xerox shares are down 57.3% in the year-to-date period and 56.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Industrial Products sector are down 31.3% and 12.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.9% and 6.5%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period but up 4.6% in the past year.

The stock is currently trading at 6.56X price to forward 12 months' earnings, which compares to 11.7X for the Zacks sub-industry, 21.17X for the Zacks sector and 22.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.49X and as low as 3.29X, with a 5-year median of 8.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17.00 price target reflects 7.08X price to forward 12 months' earnings.

The table below shows summary valuation data for XRX

| Valuation Multiples - XRX |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                 | Current       | 6.56  | 11.7         | 21.17  | 22.16   |
|                           | 5-Year High   | 11.49 | 13.44        | 21.17  | 22.16   |
|                           | 5-Year Low    | 3.29  | 8.07         | 12.55  | 15.25   |
|                           | 5-Year Median | 8.57  | 11.2         | 16.74  | 17.52   |
| P/S F12M                  | Current       | 0.43  | 0.81         | 2.71   | 3.47    |
|                           | 5-Year High   | 0.98  | 1.13         | 2.73   | 3.47    |
|                           | 5-Year Low    | 0.4   | 0.51         | 1.52   | 2.53    |
|                           | 5-Year Median | 0.71  | 0.85         | 2      | 3.02    |
| P/B TTM                   | Current       | 0.62  | 1.55         | 5.46   | 4.27    |
|                           | 5-Year High   | 1.86  | 2.63         | 5.92   | 4.56    |
|                           | 5-Year Low    | 0.59  | 1.07         | 3.33   | 2.83    |
|                           | 5-Year Median | 1.3   | 2.03         | 4.49   | 3.69    |

As of 07/02/2020

## Industry Analysis Zacks Industry Rank: Top 15% (38 out of 252)



## Top Peers

| Company (Ticker)                 | Rec          | Rank |
|----------------------------------|--------------|------|
| SYNNEX Corporation (SNX)         | Outperform   | 2    |
| CDW Corporation (CDW)            | Neutral      | 3    |
| Dell Technologies Inc. (DELL)    | Neutral      | 3    |
| HP Inc. (HPQ)                    | Neutral      | 3    |
| Sony Corporation (SNE)           | Neutral      | 3    |
| Canon, Inc. (CAJ)                | Underperform | 5    |
| Flex Ltd. (FLEX)                 | Underperform | 5    |
| Fujifilm Holdings Corp. (FUJIIY) | Underperform | 5    |

| Industry Comparison Industry: Office Supplies |           |            |           | Industry Peers |           |           |
|-----------------------------------------------|-----------|------------|-----------|----------------|-----------|-----------|
|                                               | XRX       | X Industry | S&P 500   | CAJ            | CDW       | DELL      |
| Zacks Recommendation (Long Term)              | Neutral   | -          | -         | Underperform   | Neutral   | Neutral   |
| Zacks Rank (Short Term)                       | 3         | -          | -         | 5              | 3         | 3         |
| VGM Score                                     | B         | -          | -         | A              | A         | D         |
| Market Cap                                    | 3.35 B    | 528.57 M   | 21.98 B   | 20.97 B        | 16.66 B   | 39.82 B   |
| # of Analysts                                 | 2         | 5          | 14        | 3              | 6         | 4         |
| Dividend Yield                                | 6.36%     | 2.88%      | 1.91%     | 5.99%          | 1.30%     | 0.00%     |
| Value Score                                   | A         | -          | -         | C              | B         | B         |
| Cash/Price                                    | 0.82      | 0.16       | 0.07      | 0.19           | 0.01      | 0.32      |
| EV/EBITDA                                     | 3.34      | 5.22       | 12.74     | 5.05           | 14.54     | 8.66      |
| PEG Ratio                                     | NA        | 2.28       | 2.89      | 20.53          | 1.64      | 0.78      |
| Price/Book (P/B)                              | 0.62      | 1.05       | 2.98      | 0.84           | 18.73     | 12.28     |
| Price/Cash Flow (P/CF)                        | 2.73      | 8.28       | 11.75     | 6.31           | 14.54     | 3.68      |
| P/E (F1)                                      | 8.37      | 11.42      | 21.41     | 20.53          | 21.53     | 9.41      |
| Price/Sales (P/S)                             | 0.38      | 1.05       | 2.30      | 0.66           | 0.90      | 0.43      |
| Earnings Yield                                | 11.95%    | 8.73%      | 4.42%     | 4.87%          | 4.65%     | 10.64%    |
| Debt/Equity                                   | 0.60      | 0.60       | 0.76      | 0.13           | 4.01      | 14.92     |
| Cash Flow (\$/share)                          | 5.75      | 2.09       | 6.94      | 3.12           | 8.05      | 14.60     |
| Growth Score                                  | D         | -          | -         | B              | A         | D         |
| Hist. EPS Growth (3-5 yrs)                    | -1.90%    | 11.28%     | 10.93%    | -1.90%         | 22.51%    | 6.05%     |
| Proj. EPS Growth (F1/F0)                      | -47.18%   | -44.03%    | -9.56%    | -9.43%         | -10.82%   | -22.24%   |
| Curr. Cash Flow Growth                        | -12.33%   | 3.06%      | 5.51%     | -27.71%        | 10.39%    | -17.89%   |
| Hist. Cash Flow Growth (3-5 yrs)              | -8.30%    | 4.68%      | 8.62%     | -6.35%         | 13.51%    | 40.84%    |
| Current Ratio                                 | 1.77      | 1.77       | 1.30      | 1.71           | 1.28      | 0.82      |
| Debt/Capital                                  | 36.58%    | 36.58%     | 44.46%    | 11.60%         | 80.04%    | 93.77%    |
| Net Margin                                    | 13.85%    | 8.29%      | 10.62%    | 3.29%          | 4.07%     | 5.13%     |
| Return on Equity                              | 15.93%    | 15.79%     | 15.75%    | 4.03%          | 97.93%    | 141.86%   |
| Sales/Assets                                  | 0.59      | 0.71       | 0.55      | 0.73           | 2.32      | 0.78      |
| Proj. Sales Growth (F1/F0)                    | -16.27%   | -6.45%     | -2.54%    | -1.17%         | -2.82%    | -3.12%    |
| Momentum Score                                | A         | -          | -         | A              | F         | F         |
| Daily Price Chg                               | 3.83%     | 0.00%      | 0.47%     | 1.08%          | 1.37%     | -0.98%    |
| 1 Week Price Chg                              | -7.66%    | 0.00%      | -3.90%    | -3.57%         | -7.23%    | 6.81%     |
| 4 Week Price Chg                              | -11.03%   | -4.20%     | -3.77%    | -6.01%         | 0.31%     | 9.25%     |
| 12 Week Price Chg                             | -18.75%   | 0.00%      | 8.02%     | -7.03%         | 10.21%    | 29.33%    |
| 52 Week Price Chg                             | -56.88%   | -13.13%    | -7.59%    | -33.73%        | 3.14%     | 1.57%     |
| 20 Day Average Volume                         | 4,110,389 | 178,138    | 2,649,865 | 494,887        | 1,158,295 | 3,565,555 |
| (F1) EPS Est 1 week change                    | 0.00%     | 0.00%      | 0.00%     | 0.00%          | -1.76%    | 0.00%     |
| (F1) EPS Est 4 week change                    | 0.00%     | 0.00%      | 0.00%     | -1.03%         | -1.76%    | 0.00%     |
| (F1) EPS Est 12 week change                   | -32.19%   | -32.19%    | -9.53%    | -18.18%        | -11.80%   | -8.11%    |
| (Q1) EPS Est Mthly Chg                        | 0.00%     | 0.00%      | 0.00%     | 0.00%          | -3.37%    | 0.00%     |

---

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

---

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | D |
| Momentum Score | A |
| VGM Score      | B |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.