

Xerox Corporation (XRX)

\$16.90 (As of 05/12/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: C

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.

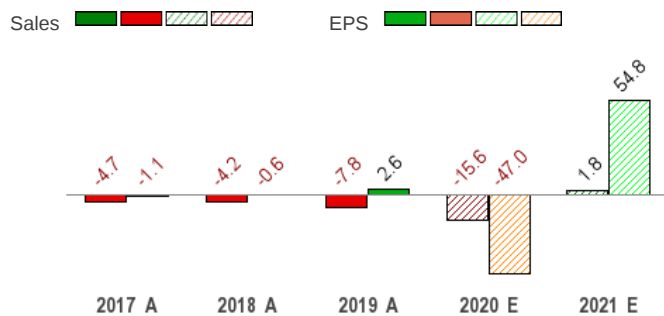
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.47 - \$15.01
20 Day Average Volume (sh)	2,962,440
Market Cap	\$3.6 B
YTD Price Change	-54.2%
Beta	1.70
Dividend / Div Yld	\$1.00 / 5.9%
Industry	Office Supplies
Zacks Industry Rank	Bottom 9% (229 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-52.3%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	-32.2%
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	4.7
P/E F1	9.0
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 05/12/2020. The reports text is as of 05/13/2020.

Overview

Founded in 1906 and headquartered in Norwalk, Connecticut, Xerox is a print technology and intelligent work solutions provider. The company designs, develops, and sells document management systems and solutions. The company's geographic footprint spans across more than 160 countries.

Xerox's intelligent workplace service offerings include managed print services; digitization services; and digital solutions including workflow automation, personalization and communication software, and content management.

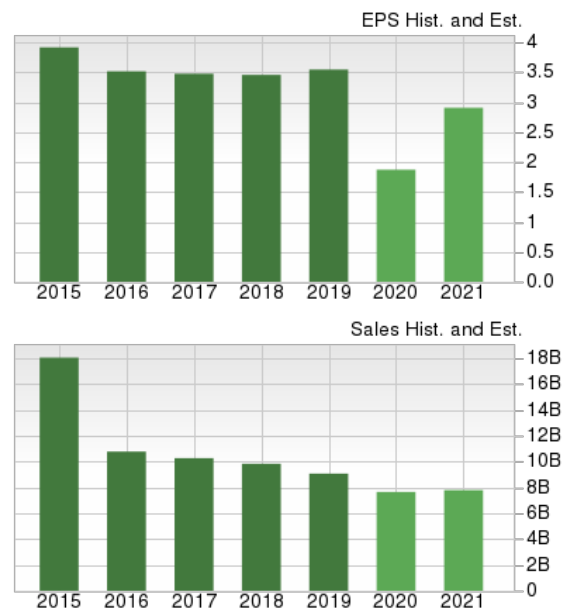
The company also offers desktop monochrome and color printers, multifunction printers, graphic communications and commercial printers, digital printing presses, light production devices, copiers, inkjet presses and FreeFlow portfolio of software solutions for automation and integration of print jobs processing.

In addition, Xerox offers paper products, wide-format systems, and network integration solutions. Products and services are sold directly through sales force, as well as through independent agents, value-added resellers, dealers, systems integrators, and the Web.

Post the separation of its BPO business, the company realigned its operations to better manage its business and serve its customers. The company is focusing on geographic expansion and is mainly organized from a sales perspective on the basis of "go-to-market" sales channels. These sales channels are helping to serve customers a wide range of products and services. As a result of this transition and change in structure, the company currently operates as one reportable segment – the design, development and sale of document management systems and solutions.

Xerox operates in a highly competitive market. It competes based on technology, price, performance, quality, reliability, distribution, brand and customer service and support. Largest competitors include Hewlett-Packard, Canon, Konica Minolta and Ricoh. The company believes that its competitive advantages are brand recognition, reputation for document management expertise, innovative technology and service delivery excellence.

The company has a strong and sustainable cash flow business model to support investment in business as well as direct return of capital to shareholders.



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 46.3% 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	Apr 28, 2020
Sales Surprise	6.03%
EPS Surprise	-52.27%
Quarterly EPS	0.21
Annual EPS (TTM)	3.61

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 **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.

On **Mar 31, 2020**, Xerox announced that it is terminating its tender offer to acquire HP, ending attempts to win a slate of HP board of directors.

On **Mar 3, 2020**, Xerox launched a tender offer to acquire all of the outstanding shares of HP Inc. for \$24. per share. The price will include \$18.40 in cash and 0.149 Xerox shares for each HP share.

Valuation

Xerox shares are down 52.3% in the year-to-date period and 46.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Business Services sector are down 33.9% and 23.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18.7% and 17%, respectively.

The S&P 500 index is down 11% in the year-to-date period but up 1% in the past year.

The stock is currently trading at 7.5X price to forward 12 months' earnings, which compares to 11.81X for the Zacks sub-industry, 18.4X for the Zacks sector and 20.76X 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 8.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 7.98X 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	7.5	11.81	18.4	20.76
	5-Year High	11.49	13.44	19.93	20.79
	5-Year Low	3.29	8.07	12.55	15.19
	5-Year Median	8.62	11.23	16.65	17.45
P/S F 12M	Current	0.47	0.78	2.38	3.24
	5-Year High	0.98	1.13	2.72	3.44
	5-Year Low	0.4	0.51	1.52	2.54
	5-Year Median	0.71	0.85	1.99	3.02
P/B TTM	Current	0.67	1.49	4.16	3.77
	5-Year High	1.86	2.63	5.63	4.55
	5-Year Low	0.62	1.07	3.32	2.84
	5-Year Median	1.3	2.03	4.45	3.65

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Canon Inc (CAJ)	Neutral	3
CDW Corporation (CDW)	Neutral	4
Flex Ltd (FLEX)	Neutral	4
Fujifilm Holdings Corp (FUJII)	Neutral	3
HP Inc (HPQ)	Neutral	3
Sony Corporation (SNE)	Neutral	4
Dell Technologies Inc (DELL)	Underperform	4
SYNNEX Corporation (SNX)	Underperform	4

Industry Comparison Industry: Office Supplies				Industry Peers		
	XRX	X Industry	S&P 500	CAJ	CDW	DELL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	4	4
VGM Score	D	-	-	B	A	A
Market Cap	3.60 B	485.15 M	19.25 B	21.71 B	14.51 B	31.24 B
# of Analysts	2	3	14	3	6	5
Dividend Yield	5.92%	2.85%	2.21%	5.78%	1.49%	0.00%
Value Score	B	-	-	B	B	A
Cash/Price	0.68	0.15	0.06	0.18	0.01	0.29
EV/EBITDA	3.54	4.96	11.70	5.24	12.98	7.56
PEG Ratio	NA	2.04	2.61	4.68	1.43	0.63
Price/Book (P/B)	0.67	0.91	2.61	0.87	16.31	9.77
Price/Cash Flow (P/CF)	2.94	8.20	10.36	6.54	12.66	2.89
P/E (F1)	8.52	9.93	19.13	21.04	18.72	7.56
Price/Sales (P/S)	0.41	0.97	1.96	0.68	0.79	0.34
Earnings Yield	11.12%	10.07%	5.00%	4.75%	5.34%	13.23%
Debt/Equity	0.60	0.60	0.75	0.13	4.01	14.05
Cash Flow (\$/share)	5.75	2.09	7.01	3.12	8.05	14.60
Growth Score	D	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	-1.90%	11.28%	10.82%	-1.90%	22.51%	11.98%
Proj. EPS Growth (F1/F0)	-47.18%	-44.03%	-10.31%	-8.49%	-10.71%	-24.00%
Curr. Cash Flow Growth	-12.33%	3.06%	5.83%	-27.71%	10.39%	-17.89%
Hist. Cash Flow Growth (3-5 yrs)	-8.30%	4.68%	8.52%	-6.35%	13.51%	40.84%
Current Ratio	1.77	1.77	1.27	1.71	1.28	0.70
Debt/Capital	36.58%	36.58%	44.25%	11.60%	80.04%	93.44%
Net Margin	13.85%	8.73%	10.59%	3.29%	4.07%	5.30%
Return on Equity	15.93%	15.79%	16.33%	4.03%	97.93%	217.89%
Sales/Assets	0.59	0.71	0.55	0.73	2.32	0.80
Proj. Sales Growth (F1/F0)	-16.27%	-7.11%	-2.53%	-1.17%	-2.65%	-3.75%
Momentum Score	C	-	-	D	C	A
Daily Price Chg	-3.87%	-3.87%	-2.55%	-2.11%	-2.85%	-2.58%
1 Week Price Chg	6.46%	0.00%	3.23%	2.63%	1.61%	9.13%
4 Week Price Chg	-11.05%	-3.84%	-0.84%	-2.81%	-4.47%	2.20%
12 Week Price Chg	-54.59%	-26.47%	-21.82%	-19.58%	-24.39%	-19.94%
52 Week Price Chg	-46.25%	-6.40%	-10.27%	-26.29%	-1.24%	-36.13%
20 Day Average Volume	2,962,440	144,997	2,520,117	531,581	938,242	2,055,160
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.01%	0.00%
(F1) EPS Est 4 week change	-32.19%	-32.19%	-6.29%	-17.33%	-10.22%	0.00%
(F1) EPS Est 12 week change	-48.98%	-48.98%	-16.21%	-34.90%	-19.11%	-17.24%
(Q1) EPS Est Mthly Chg	-52.83%	-52.83%	-12.28%	NA	-15.14%	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	B
Growth Score	D
Momentum Score	C
VGM Score	D

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.

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