

Xerox Corporation (XRX)

\$37.82 (As of 02/14/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

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 (SMB) coverage through distribution acquisitions. Reorganization under a new holding company should help the company attain greater strategic, operational and financial flexibility. The stock has outperformed the S&P 500 index in the past year. On the flip side, Xerox continues to grapple with decreased demand for paper-related systems and products. Its revenues have declined over years.

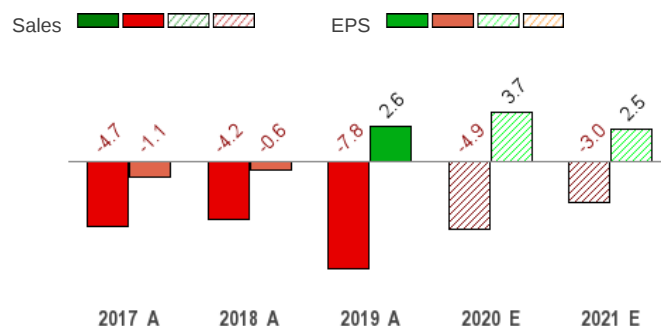
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.47 - \$27.25
20 Day Average Volume (sh)	2,083,138
Market Cap	\$8.2 B
YTD Price Change	2.6%
Beta	1.81
Dividend / Div Yld	\$1.00 / 2.6%
Industry	Office Supplies
Zacks Industry Rank	Top 2% (6 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.3%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	9.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	8.8
P/E F1	10.3
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,360 E
2020	2,094 E	2,188 E	2,085 E	2,271 E	8,618 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					\$3.77 E
2020	\$0.77 E	\$0.90 E	\$0.85 E	\$1.16 E	\$3.68 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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.

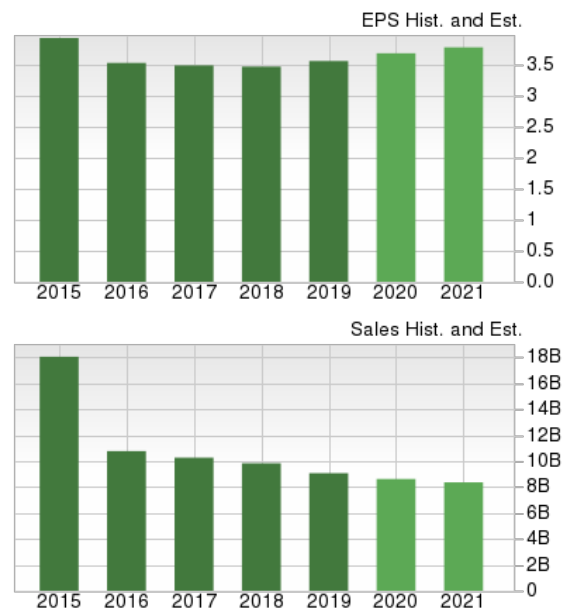
The company also offers desktop monochrome and color printers, multifunction printers, graphic communications and commercial printers, digital printing presses, light production devices, copiers, inkjet presses and FreeFlow portfolio of software solutions for automation and integration of print jobs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

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

▲ Xerox has a solid track of record strong margins which it has been attaining through cost and productivity initiatives. In 2016, Xerox started its three-year **Strategic Transformation program** aiming to achieve productivity and cost reduction beyond the historical range of \$300 to \$350 million of annual savings. Targeted areas include delivery, sales productivity, remote connectivity, pricing optimization, supply chain optimization and design efficiency. In the first two years, Xerox achieved more than \$1.2 billion in gross productivity gains and cost savings. The company targeted achievement of approximately \$1.7 billion in savings over the three-year period. We believe that the program will help the company to increase revenue, expand margins and drive its stock that has gained 24.1% over the past year, outperforming the 20.9% rally of the S&P 500 index.

▲ Xerox has a **post-sale driven business model** that provides significant recurring revenue and cash generation. Around 78% of the company's total revenues in 2018 was associated managed print 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 has expanded its **Small and Mid-sized (SMB) coverage** through distribution acquisitions. Acquisitions of Ohio-based multi-brand dealer MT Business Technologies, and two other multi-brand dealers in North and South Carolina and Iowa have opened up market opportunities for the company in large metropolitan regions. The company broadened its distribution to small and mid-sized businesses in 2018 through expanding network of resellers and partners and integrating a significant number of its small and mid-sized government, education, healthcare, and graphic communication accounts into XBS. 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.

Risks

- 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.
 - 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 first nine months of 2019, the company's year over year revenue decline of 8.2% included a 1.7% unfavorable impact from currency.
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Last Earnings Report

Xerox Beats Earnings Estimates in Q4

Xerox reported strong fourth-quarter 2019 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.33 beat the consensus mark by 30.4% and increased year over year. Total revenues of \$2.44 billion surpassed the consensus mark by 3.2% but declined year over year on a reported as well as constant-currency (cc) basis.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	3.18%
EPS Surprise	24.30%
Quarterly EPS	1.33
Annual EPS (TTM)	4.31

Revenues by Segment

Equipment sales totaled \$616 million, which declined 2.1% year over year on a reported basis and 1.5% on a constant-currency basis. The segment contributed 25% to total revenues.

Post sale revenues of \$1.83 billion declined 2.2% year over year on a reported basis and 1.7% at cc. The segment contributed 75% to total revenues.

Revenues by Region

Revenues from **Americas** came in at \$1.56 billion, down 3.4% year over year on a reported basis and 3.3% at cc. The region contributed 64% to total revenues.

EMEA revenues amounted to \$756 million, down 8.9% year over year on a reported basis and 7.4% at cc. The region contributed 31% to total revenues.

Revenues from **Other** region totaled \$126 million, compared with \$51 million reported in the year-ago quarter. The region contributed 5% to total revenues.

Operating Performance

Adjusted operating profit of \$411 million rose 16.8% year over year. Adjusted operating margin improved 270 basis points (bps) year over year to 16.8%.

Selling, administrative and general expenses, as a percentage of revenues, declined to 20.9% from 22.1% reported in the year-ago quarter. Research, development and engineering expenses, as a percentage of revenues, came in at 3.8%, flat year over year.

Balance Sheet and Cash Flow

Xerox exited the fourth quarter with cash, cash equivalents and restricted cash balance of \$2.8 billion compared with \$979 million at the end of the prior quarter. Long-term debt was \$3.23 billion at the end of the quarter.

The company generated \$398 million of cash from continuous operations and capex was \$17 million in the reported quarter. Free cash flow was \$381 million. Xerox paid out \$60 million in dividends in the quarter.

2020 Guidance

Xerox expects adjusted EPS in the range of \$3.6 to \$3.7. Revenues are expected to decline roughly 4% at cc.

Adjusted operating margin is expected to be around 13%. The company expects free cash flow of approximately \$1.2 billion and operating cash flow of roughly \$1.3 billion.

Recent News

On **Feb 10, 2020**, Xerox announced its intent to launch a tender offer on or around Mar 2, for all of the outstanding shares of HP at a price of \$24.00 per share. The price will include \$18.40 in cash and 0.149 Xerox shares for each HP share.

On **Jan 6, 2020**, Xerox sent a letter to the board of directors of HP to inform that it has obtained \$24 billion in binding financing commitments from Citi, Mizuho and Bank of America to complete the acquisition of HP.

Valuation

Xerox shares are up 24.1% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 27.5%, 8.2% and 20.9%, respectively in the same time frame.

The stock is currently trading at 10.26X price to forward 12 months' earnings, which compares to 13.64X for the Zacks sub-industry, 18.37X for the Zacks sector and 19.36X for the S&P 500 index.

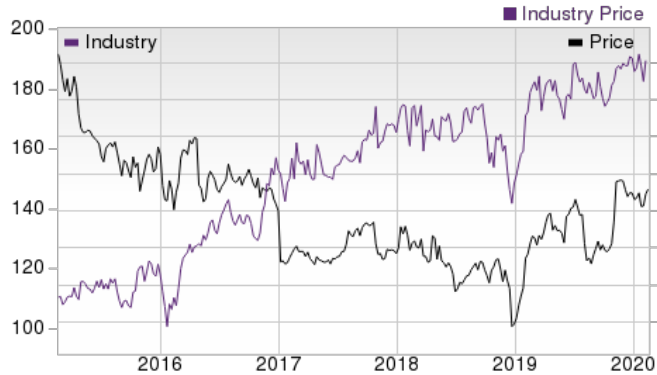
Over the past five years, the stock has traded as high as 13.36X and as low as 3.29X, with a 5-year median of 8.68X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$40 price target reflects 10.84X price to forward 12 months' earnings.

The table below shows summary valuation data for XRX

Valuation Multiples - XRX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	10.26	13.64	18.37	19.36
	5-Year High	13.36	13.64	19.89	19.36
	5-Year Low	3.29	8.07	12.6	15.18
	5-Year Median	8.68	11.28	16.62	17.47
P/S F12M	Current	0.95	1.13	2.79	3.58
	5-Year High	0.98	1.13	2.79	3.58
	5-Year Low	0.4	0.51	1.51	2.54
	5-Year Median	0.71	0.85	1.98	3
P/B TTM	Current	1.46	1.87	5.68	4.36
	5-Year High	1.86	2.63	5.73	4.42
	5-Year Low	0.92	1.07	3.44	2.85
	5-Year Median	1.33	2	4.45	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 2% (6 out of 255)



Top Peers

Sony Corporation (SNE)	Outperform
SYNNEX Corporation (SNX)	Outperform
CDW Corporation (CDW)	Neutral
Flex Ltd. (FLEX)	Neutral
Fujifilm Holdings Corp. (FUJIIY)	Neutral
HP Inc. (HPQ)	Neutral
Canon, Inc. (CAJ)	Underperform
Dell Technologies Inc. (DELL)	Underperform

Industry Comparison Industry: Office Supplies				Industry Peers		
	XRX Outperform	X Industry	S&P 500	CAJ Underperform	CDW Neutral	DELL Underperform
VGM Score	A	-	-	B	A	A
Market Cap	8.18 B	751.50 M	24.61 B	27.22 B	19.87 B	38.59 B
# of Analysts	2	4	13	2	7	5
Dividend Yield	2.64%	1.85%	1.78%	4.56%	1.10%	0.00%
Value Score	A	-	-	C	B	A
Cash/Price	0.34	0.11	0.04	0.13	0.01	0.23
EV/EBITDA	7.90	7.57	14.06	6.88	18.43	9.71
PEG Ratio	NA	1.76	2.09	3.82	1.58	0.65
Price/Book (P/B)	1.46	1.46	3.29	1.02	20.69	9.94
Price/Cash Flow (P/CF)	6.57	10.20	13.65	8.20	19.34	3.10
P/E (F1)	10.31	12.17	19.21	17.17	20.66	7.83
Price/Sales (P/S)	0.89	1.29	2.70	0.84	1.10	0.42
Earnings Yield	9.70%	8.41%	5.19%	5.82%	4.84%	12.76%
Debt/Equity	0.58	0.58	0.71	0.15	3.56	11.54
Cash Flow (\$/share)	5.75	1.98	6.92	3.12	7.15	17.07
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	-2.18%	11.45%	10.85%	0.55%	22.23%	NA
Proj. EPS Growth (F1/F0)	3.52%	8.96%	7.17%	40.57%	9.72%	-7.76%
Curr. Cash Flow Growth	-12.33%	3.06%	8.56%	-27.71%	-2.02%	4.09%
Hist. Cash Flow Growth (3-5 yrs)	-8.30%	4.22%	8.36%	-6.35%	10.84%	77.13%
Current Ratio	1.79	1.79	1.23	1.92	1.24	0.71
Debt/Capital	35.72%	35.72%	42.91%	13.23%	78.05%	92.17%
Net Margin	14.81%	8.77%	11.81%	3.48%	4.09%	4.54%
Return on Equity	19.47%	15.81%	16.86%	4.27%	94.72%	457.91%
Sales/Assets	0.62	0.72	0.54	0.74	2.30	0.81
Proj. Sales Growth (F1/F0)	-5.70%	0.10%	3.85%	4.71%	5.68%	2.40%
Momentum Score	B	-	-	A	B	D
Daily Price Chg	-1.02%	-0.09%	0.06%	-1.31%	0.74%	0.63%
1 Week Price Chg	4.50%	2.49%	2.47%	2.56%	1.69%	5.84%
4 Week Price Chg	1.42%	1.42%	0.59%	-8.41%	-4.10%	3.00%
12 Week Price Chg	-2.25%	5.03%	6.98%	-6.84%	0.51%	-1.55%
52 Week Price Chg	26.79%	26.79%	16.62%	-11.42%	47.35%	-2.76%
20 Day Average Volume	2,083,138	125,930	2,020,569	218,674	1,133,359	2,616,941
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.77%	0.00%
(F1) EPS Est 4 week change	9.05%	-0.07%	-0.05%	0.00%	3.13%	0.00%
(F1) EPS Est 12 week change	9.38%	2.30%	-0.17%	-8.87%	3.13%	-7.08%
(Q1) EPS Est Mthly Chg	NA%	-3.37%	-0.24%	NA	3.45%	0.00%

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	B
Momentum Score	B
VGM Score	A

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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