AZ STOCKS
Stocks from A to Z

Xerox

A highly leveraged turnaround where the equity works like an option

DEEP DIVE

November 2026

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COMPANY PROFILE

Xerox

THESIS

Xerox is undergoing a deep transformation after years of pressure on its traditional business. In this analysis I assess whether it can use the cash from a declining business to build a new one, or whether the turnaround risks are still too high.

THE COMPANY

Xerox is a workplace technology company specializing in printing, digital solutions and IT services. It has relationships with about 90% of Fortune 500 companies and a broad base of small and mid-sized businesses.

Its traditional business faces a structural decline in printed page volumes, as digitization reduces the need to print.

TARGET PRICE
USD 1.8

UPSIDE / DOWNSIDE
+65.1%

SECTOR
Technology

EXCHANGE
NASDAQ

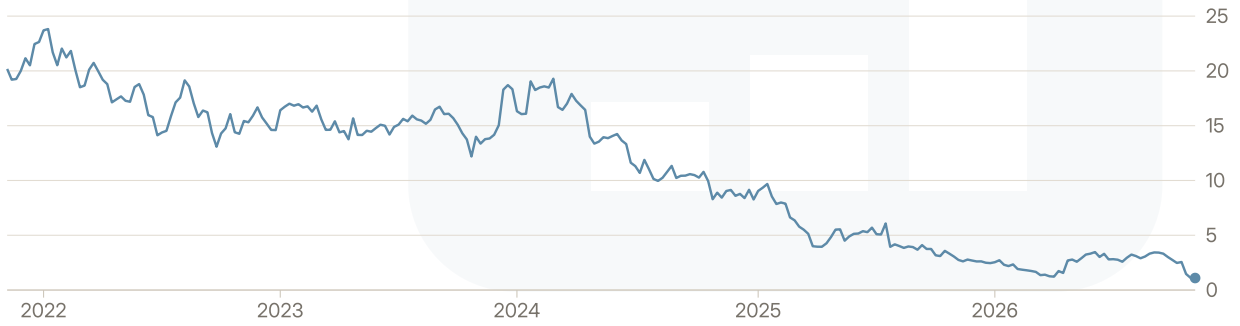
CURRENCY
USD

LAST UPDATED
November 2026

MARKET DATA AS OF 2026-11-06

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5Y)
USD 1.09	1.06 – 3.78	-95%	2.69

WEEKLY SHARE PRICE, LAST 5 YEARS



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SECTION 01

Introduction

Xerox is one of those companies that hardly needs an introduction. For decades it was so dominant in its category that practically all of us came into contact with one of its products.

Today Xerox is a workplace technology company, specialized mainly in printing, digital solutions and IT services. It operates globally and has relationships with about 90% of Fortune 500 companies, as well as a broad base of small and mid-sized businesses.

Its recent history, however, is much less attractive than the history of the brand. The traditional printing business has faced a structural decline in printed page volumes for years, as document digitization slowly reduces the need to print.

Can it use the cash generated by a declining business to build a more efficient and diversified company before that same business deteriorates too much?

The company is trying to answer that question through its Reinvention strategy, the acquisition of ITsavvy and, above all, the purchase of Lexmark completed in July 2025. Xerox paid consideration of about USD 768 million for Lexmark, in a transaction initially valued at about USD 1.5 billion including debt and other assumed obligations.

The deal significantly increased the group's scale, expanded its presence in A4 printers and allowed it to enter Asia Pacific more strongly. It also increased debt considerably.

That last point is fundamental. Xerox is no longer simply a mature company trying to stabilize a declining business. It has become a **highly leveraged turnaround**, where an important part of the thesis depends on Lexmark's synergies showing up before the market contraction eats up those savings.

SECTION 02

Business model

Xerox currently divides its operations into two reportable segments: **Print and Other** and **IT Solutions**.

Print and Other

It is still by far the heart of the business. In 2025 it generated USD 6,272 million of external revenue, **about 89% of consolidated sales.** Within this segment Xerox sells printers, multifunction devices, production systems, supplies, maintenance, software, related services and financing.

We can divide the printing offering into three large categories:

- **Workplace Solutions.** Includes office devices, from desktop A4 printers to A3 multifunction devices used by companies. The addition of Lexmark is relevant in A4, where Xerox had a weaker position.
- **Production Solutions.** High-capacity printing equipment used by commercial printers, graphic communications and environments that need large volumes.
- **Xerox Services.** Includes managed print services, document digitization, workflow automation and other solutions that try to move the customer relationship from simple hardware sales toward service contracts.

There is also **Xerox Financial Services**, which provides financing and leasing of equipment. This activity matters when analyzing the balance sheet because part of the consolidated debt finances financial assets and should not be treated exactly like purely industrial debt.

Distribution is carried out through direct sales and a global network of distributors, dealers, resellers, integrators and digital channels. The Lexmark acquisition expanded this network considerably.

IT Solutions

IT Solutions is much smaller, but strategically it could be much more important. It generated about USD 750 million of external revenue in 2025, **close to 11% of the total**, after incorporating ITsavvy.

The company offers IT infrastructure, hardware and software, device lifecycle management, managed services, networking, cybersecurity, cloud and infrastructure.

The strategic idea makes sense: Xerox already has commercial relationships with thousands of companies through its printers and document services. Instead of just selling them printers, it is trying to capture a larger share of their technology spending.

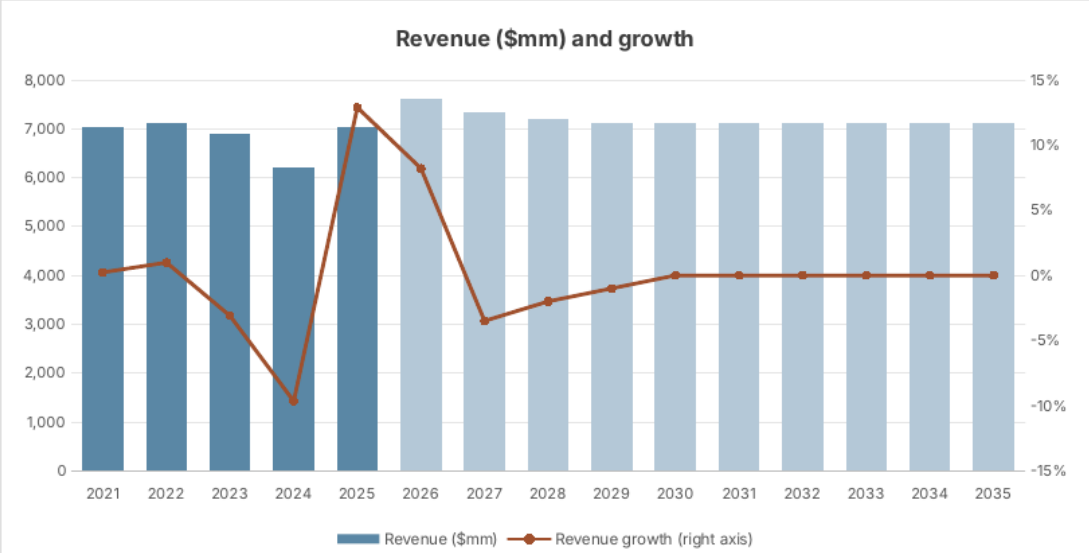
In fact, one of the stated priorities for 2026 is to increase the penetration of IT Solutions and Digital Services within the Print customer base itself.

For now, I consider IT Solutions **an interesting option, but not yet a second leg large enough to change the nature of the group**.

SECTION 03

Business quality

Revenue



Source: author's analysis based on Tikr data.

Xerox's evolution over the last decade makes the structural problem of the business quite clear.

In 2016 Xerox generated almost USD 11 billion of revenue. In 2019 it was USD 9,066 million. Then came the pandemic, which accelerated the decline in office printing volume, and in 2020 sales fell to USD 7,022 million.

Between 2020 and 2022 there was some stabilization. But the trend deteriorated again afterwards: USD 6,886 million in 2023 and USD 6,221 million in 2024. In 2025 sales went back to USD 7,022 million, reported growth of 12.9%.

At first glance it might look like Xerox finally returned to growth. It did not.

The increase is mainly explained by the acquisitions. If Lexmark and ITsavvy are also included in the comparable periods, **pro forma sales fell 7.6% in 2025**.

The same thing continued in 2026. In Q2 2026 Xerox reported USD 1,922 million of revenue, growth of 22%. However, on a comparable pro forma basis, sales fell 6.5%.

For now, **Lexmark is increasing the size of Xerox, not necessarily the underlying business**.

EQUIPMENT VS POST SALE

Revenue quality is better than one might expect from a pure hardware manufacturer. In 2025 Xerox had about USD 1,488 million of Equipment Sales and USD 5,534 million of Post Sale Revenue. In other words, about 79% of revenue came from activities after the sale of the equipment.

These revenues include maintenance, supplies, managed print services, rentals, financing and other services. This creates some recurrence. Once a device is installed, Xerox can monetize that base for years through toner, maintenance, financing and services.

The problem is that **recurrence does not mean growth**. If the number of installed devices falls or each device prints fewer pages, the associated supplies and services also fall progressively. Xerox acknowledges that metrics such as installed machines, printed pages and revenue per page are key to understanding the future evolution of the business.

That is why I would not consider that 79% equivalent to the recurring revenue of a SaaS company. It is recurrence tied to an installed base that, in certain categories, is shrinking.

REVENUE BY REGION

Xerox is still a global business, although most of its revenue comes from the United States. In 2025 about 43% of revenue was generated outside the US: Europe contributed about USD 1,952 million, Canada USD 464 million, Latin America USD 274 million, Asia Pacific USD 154 million and other regions USD 193 million. The US represented the remaining 57% or so.

The addition of Lexmark should especially improve its presence in Asia Pacific, a region where Xerox was historically less well positioned. One of the strategic reasons for the acquisition was precisely to widen geographic coverage and gain presence in A4 color.

Geographic diversification reduces dependence on a single market, although it introduces currency exposure.

Latest results: third quarter of 2026

At the end of October Xerox reported third-quarter results, the first that are compared against a period with Lexmark already consolidated:

- **Sales:** USD 1,868 million, a decline of 4.7% (4.5% at constant currency). The decline moderated from the -7% pro forma of the second quarter.
- **Print equipment:** grew 3% to USD 393 million, the first organic growth since 2023. Entry-level devices grew 21% and production devices 14%, while mid-range fell 15%. The problem is that entry-level devices lose money on the hardware and depend on supplies and later service to be profitable.
- **IT Solutions:** fell 17% to USD 187 million. The company attributes it to sales teams that are still being rebuilt and longer decision cycles. Backlog grew 24%.
- **Profitability:** adjusted operating margin rose to 6.6% (+330 basis points) thanks to Lexmark synergies. However, net income was a loss of USD 1,015 million because of a new goodwill impairment of USD 959 million. Adjusted EPS was just USD 0.02.

- **Cash:** free cash flow for the quarter was USD 7 million. Xerox ended September with USD 412 million of cash and total liquidity of about USD 726 million.

The most important point was the **cut to 2026 guidance**. Expected adjusted operating income fell from USD 555-605 million to USD 450-475 million (and that figure includes a USD 105 million benefit from tariff refunds), and expected free cash flow fell from about USD 250 million to USD 50-100 million. The causes: higher memory and oil costs (about USD 60 million) and lower-than-expected tariff refund collections. The CEO acknowledged that the headwinds "have intensified".

To preserve cash, the company **suspended common and preferred dividends**. It also exchanged USD 174 million of 5.5% 2028 notes for USD 121 million of 10.25% 2030 secured notes plus shares. About USD 382 million of notes maturing in August 2028 remain, versus USD 750 million at the start of the year.

For 2027 the company expects price increases from the first quarter, about USD 100 million of additional Lexmark synergies, consolidation of distribution centers and real estate, and a resizing of the IT Solutions cost base. The full size of the cost plan will be disclosed with fourth-quarter results.

The market punished the stock, which today trades around USD 1.09, close to its 52-week low.

Vertical analysis

INCOME STATEMENT

Fiscal year Income Statement — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(58.8%)	(57.9%)	(58.6%)	(58.3%)	(61.9%)	(64.3%)	(65.9%)	(66.4%)	(67.7%)	(71.1%)	**(68.4%)**	**(67.1%)**
Gross Profit	**40.0%**	**40.7%**	**40.0%**	**40.3%**	**36.3%**	**34.1%**	**32.6%**	**33.6%**	**32.3%**	**28.9%**	**31.6%**	**32.3%**
Selling General & Admin Expenses	(25.6%)	(27.0%)	(25.7%)	(23.2%)	(26.4%)	(23.1%)	(24.6%)	(24.9%)	(26.0%)	(24.2%)	**(25.0%)**	**(24.6%)**
R&D Expenses	(4.3%)	(4.2%)	(4.1%)	(4.1%)	(4.4%)	(4.4%)	(4.3%)	(3.3%)	(3.1%)	(3.3%)	**(3.2%)**	**(3.7%)**
Total Operating Expenses	**(30.4%)**	**(31.8%)**	**(30.3%)**	**(27.8%)**	**(31.6%)**	**(28.3%)**	**(29.5%)**	**(28.9%)**	**(30.2%)**	**(28.7%)**	**(29.2%)**	**(29.1%)**
Operating Income	**9.5%**	**8.9%**	**9.7%**	**12.5%**	**4.7%**	**5.8%**	**3.2%**	**4.7%**	**2.1%**	**0.2%**	**2.4%**	**3.2%**
Interest Expense	(1.7%)	(1.2%)	(1.2%)	(1.2%)	(1.3%)	(1.4%)	(1.3%)	(1.0%)	(1.9%)	(3.5%)	**(2.1%)**	**(1.8%)**
EBT Incl. Unusual Items	**6.5%**	**5.4%**	**5.8%**	**9.2%**	**3.6%**	**(6.7%)**	**(4.6%)**	**(0.4%)**	**(19.5%)**	**(6.9%)**	**(9.0%)**	**(7.6%)**
Income Tax Expense	(0.6%)	(4.7%)	(2.6%)	(2.0%)	(0.9%)	0.2%	0.0%	0.4%	(1.7%)	(7.7%)	**(3.0%)**	**(1.7%)**
Net Income	**(4.4%)**	**2.0%**	**3.7%**	**14.9%**	**2.7%**	**(6.5%)**	**(4.5%)**	**0.0%**	**(21.2%)**	**(14.7%)**	**(12.0%)**	**(9.4%)**
EBITDA	14.0%	13.5%	13.9%	16.5%	9.3%	9.9%	6.3%	7.9%	6.1%	4.5%	**6.1%**	**6.9%**

Source: author's analysis based on Tikr data.

The main deterioration is in **gross margin**, which went from levels close to 40% between 2016 and 2019 to just **28.9% in 2025**, versus 32.3% in 2024. Cost of sales already represents more than 71% of revenue, showing structural pressure on the profitability of the business.

Operating expenses stayed relatively contained, at 28.7% of sales versus 30.2% in 2024. However, this reduction was not enough to offset the fall in gross margin and **operating margin shrank to just 0.2%**, very far from the 12.5% reached in 2019.

On top of that, interest expense rose sharply to **3.5% of sales**, versus 1.9% the year before. Net margin improved from the exceptional -21.2% of 2024, hit by a large goodwill impairment, but remained clearly negative at **-14.7%**. So the improvement in net income should not be confused with an operating recovery.

BALANCE SHEET

Fiscal year Balance Sheet — % of total assets	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Cash And Short Term Investments	**12.3%**	**8.1%**	**7.3%**	**18.2%**	**17.8%**	**13.9%**	**9.1%**	**5.2%**	**6.9%**	**5.2%**	**5.8%**	**8.1%**
Total Receivables	**6.6%**	**8.8%**	**8.6%**	**8.4%**	**6.2%**	**6.3%**	**7.7%**	**8.6%**	**9.8%**	**12.3%**	**10.3%**	**8.9%**
Inventory	4.7%	5.7%	5.6%	4.6%	5.7%	5.3%	6.9%	6.6%	8.3%	10.3%	**8.4%**	**7.5%**
Total Current Assets	**38.7%**	**32.8%**	**31.7%**	**40.8%**	**39.2%**	**35.6%**	**35.6%**	**31.7%**	**35.1%**	**36.3%**	**34.4%**	**34.9%**
Net Property Plant And Equipment	3.7%	3.9%	3.3%	5.0%	4.9%	4.7%	4.6%	4.4%	5.1%	7.1%	**5.6%**	**5.2%**
Long-term Investments	7.9%	8.8%	0.3%	0.3%	0.3%	0.4%	0.5%	0.7%	1.1%	1.0%	**0.9%**	**0.7%**
Goodwill	21.0%	24.6%	25.9%	25.9%	27.6%	24.9%	24.4%	27.4%	23.2%	22.6%	**24.4%**	**24.5%**
Other Intangibles	2.9%	3.0%	2.5%	2.1%	2.4%	2.5%	2.6%	2.4%	3.5%	10.9%	**5.6%**	**4.4%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Current Liabilities	**25.8%**	**17.2%**	**21.9%**	**22.8%**	**16.8%**	**21.4%**	**28.8%**	**27.8%**	**31.3%**	**32.8%**	**30.6%**	**28.4%**
Long-Term Debt	29.4%	32.6%	28.7%	21.5%	27.5%	27.2%	24.8%	27.1%	33.6%	40.9%	**33.9%**	**30.7%**
Capital Leases	–	0.2%	0.1%	1.8%	1.7%	1.6%	1.5%	1.5%	2.2%	2.7%	**2.1%**	**1.9%**
Total Liabilities	**72.5%**	**65.5%**	**64.7%**	**61.4%**	**60.6%**	**64.7%**	**69.0%**	**72.3%**	**84.4%**	**93.1%**	**83.3%**	**76.7%**
Total Equity	**27.5%**	**34.5%**	**35.3%**	**38.6%**	**39.4%**	**35.3%**	**31.0%**	**27.7%**	**15.6%**	**6.9%**	**16.7%**	**23.3%**
Total Debt	**35.0%**	**34.6%**	**35.2%**	**30.8%**	**32.5%**	**34.3%**	**34.4%**	**34.7%**	**43.5%**	**46.6%**	**41.6%**	**38.7%**
Net Debt	22.7%	26.5%	27.9%	12.6%	14.7%	20.4%	25.3%	29.5%	36.6%	41.4%	**35.9%**	**30.7%**

Source: author's analysis based on Tikr data.

The balance sheet shows an important change in composition during 2025. Although current assets rose slightly to 36.3% of the total, their quality deteriorated a little: cash fell from 6.9% to **5.2%**, while receivables and inventory rose to **11.9% and 10.3%**, respectively.

The sharp increase in intangibles also stands out, rising from 3.5% to **10.9% of assets**, together with a higher weight of PP&E. This reflects the change in the company's perimeter during the last year.

The most relevant aspect, however, is on the liability side. Total liabilities went from 84.4% of assets in 2024 to **93.2% in 2025**, with long-term debt rising from 33.6% to **40.9%**. On the other side, total equity fell to just **6.9% of assets**, versus 15.6% a year earlier and levels above 30% during much of the last decade.

Xerox ended 2025 with a considerably more leveraged balance sheet and a much smaller financial safety margin.

CASH FLOW

Fiscal year Cash Flow — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Net Income	**(4.4%)**	**2.0%**	**3.7%**	**14.9%**	**2.7%**	**(6.5%)**	**(4.5%)**	**0.0%**	**(21.2%)**	**(14.7%)**	**(12.0%)**	**(9.4%)**
Total Depreciation & Amortization	**4.5%**	**4.5%**	**4.2%**	**4.1%**	**4.6%**	**4.1%**	**3.2%**	**3.1%**	**4.0%**	**4.3%**	**3.8%**	**3.7%**
Stock-Based Compensation	0.5%	0.5%	0.6%	0.6%	0.6%	0.8%	1.1%	0.8%	0.8%	0.6%	**0.8%**	**0.8%**
Cash from Operations	**7.4%**	**(2.7%)**	**11.8%**	**14.7%**	**7.8%**	**8.9%**	**2.2%**	**10.0%**	**8.2%**	**3.2%**	**7.1%**	**6.5%**
Capital Expenditure	(1.3%)	(1.1%)	(0.9%)	(0.7%)	(1.1%)	(1.0%)	(0.8%)	(0.5%)	(0.7%)	(1.3%)	**(0.8%)**	**(0.9%)**
Cash Acquisitions	(0.3%)	(0.9%)	–	(0.5%)	(2.9%)	(0.8%)	(1.3%)	(0.1%)	(2.6%)	(9.6%)	**(4.1%)**	**(2.9%)**
Cash from Investing	**(0.8%)**	**1.7%**	**(0.3%)**	**23.7%**	**(3.5%)**	**(1.2%)**	**(1.1%)**	**(0.1%)**	**(3.2%)**	**(9.9%)**	**(4.4%)**	**(3.1%)**
Total Debt Issued	**17.8%**	**10.1%**	**0.1%**	**0.1%**	**33.6%**	**4.4%**	**16.8%**	**20.3%**	**14.6%**	**17.9%**	**17.6%**	**14.8%**
Total Debt Repaid	**(9.2%)**	**(18.3%)**	**(3.3%)**	**(10.6%)**	**(31.7%)**	**(7.4%)**	**(24.2%)**	**(27.2%)**	**(15.9%)**	**(10.8%)**	**(18.0%)**	**(17.1%)**
Repurchase of Common Stock	–	–	(7.2%)	(6.6%)	(4.3%)	(12.6%)	(1.6%)	(7.9%)	(0.1%)	–	**(2.7%)**	**(4.4%)**
Common Dividends Paid	(2.9%)	(2.7%)	(2.6%)	(2.5%)	(3.1%)	(2.7%)	(2.3%)	(2.2%)	(2.0%)	(0.8%)	**(1.7%)**	**(2.0%)**
Cash from Financing	**5.4%**	**(9.9%)**	**(13.5%)**	**(20.2%)**	**(5.9%)**	**(18.6%)**	**(11.6%)**	**(17.5%)**	**(4.4%)**	**5.8%**	**(5.4%)**	**(9.2%)**
Free Cash Flow	6.1%	(3.7%)	10.9%	14.0%	6.8%	8.0%	1.4%	9.4%	7.5%	1.9%	**6.3%**	**5.6%**

Source: author's analysis based on Tikr data.

Cash generation also deteriorated significantly. Operating cash flow fell from **8.2% of sales in 2024 to 3.2% in 2025**, while the free cash flow margin went from 7.5% to **1.9%**.

CapEx rose to 1.3% of sales, although it is still relatively low for the size of the business. Much more relevant was the cash spent on acquisitions, equivalent to **9.6% of revenue**, versus 2.6% the year before.

The financing structure also changed. Debt issuance reached 17.9% of sales and financing cash flow turned positive again. At the same time, Xerox practically eliminated buybacks and considerably reduced the weight of dividends.

The overall reading is clear: **2025 was a year in which the priority stopped being returning capital to shareholders and became financing the company's transformation**, with free cash flow still weak for the level of debt taken on.

Financial ratios

- **Growth**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Growth												
Revenue growth		(7.2%)	(3.3%)	(6.2%)	(22.5%)	0.2%	1.0%	(3.1%)	(9.7%)	12.9%	**0.0%**	**0.3%**
EBIT growth		(13.1%)	5.3%	20.2%	(70.8%)	23.9%	(45.2%)	46.0%	(60.2%)	(88.5%)	**(34.2%)**	**(24.8%)**
Diluted EPS growth		(91.4%)	480.0%	139.7%	(69.8%)	(404.8%)	n.m.	n.m.	n.m.	n.m.	**n.m.**	**(404.8%)**
Change in diluted shares (dilution / buybacks)		0.4%	(1.9%)	(7.5%)	(9.4%)	(13.3%)	(14.8%)	(4.5%)	(16.8%)	1.6%	**(6.6%)**	**(9.5%)**

Source: author's analysis based on Tikr data.

Sales fell in seven of the last ten years. The +12.9% of 2025 is explained by the purchase of Lexmark and ITsavvy; on a pro forma basis they fell 7.6%. EBIT collapsed 88.5% in 2025. For years the share count fell because of buybacks, but in 2025 it rose slightly again.

- **Profitability**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Profitability												
Gross margin	40.0%	40.7%	40.0%	40.3%	36.3%	34.1%	32.6%	33.6%	32.3%	28.9%	**31.6%**	**32.3%**
SG&A % revenue	25.6%	27.0%	25.7%	23.2%	26.4%	23.1%	24.6%	24.9%	26.0%	24.2%	**25.0%**	**24.6%**
R&D % revenue	4.3%	4.2%	4.1%	4.1%	4.4%	4.4%	4.3%	3.3%	3.1%	3.3%	**3.2%**	**3.7%**
EBIT margin	9.5%	8.9%	9.7%	12.5%	4.7%	5.8%	3.2%	4.7%	2.1%	0.2%	**2.4%**	**3.2%**
EBITDA margin (EBIT + D&A)	14.0%	13.5%	13.9%	16.5%	9.3%	9.9%	6.3%	7.9%	6.1%	4.5%	**6.1%**	**6.9%**
Net margin	(4.4%)	2.0%	3.7%	14.9%	2.7%	(6.5%)	(4.5%)	0.0%	(21.2%)	(14.7%)	**(12.0%)**	**(9.4%)**
Stock-based compensation % revenue	0.5%	0.5%	0.6%	0.6%	0.6%	0.8%	1.1%	0.8%	0.8%	0.6%	**0.8%**	**0.8%**
Effective tax rate	8.9%	87.0%	44.3%	21.6%	25.0%	3.6%	0.9%	103.6%	(8.6%)	(110.9%)	**(5.3%)**	**(2.3%)**

Source: author's analysis based on Tikr data.

Gross margin went from 40% between 2016 and 2019 to 28.9% in 2025. EBIT margin fell from 12.5% in 2019 to just 0.2%, and EBITDA margin to 4.5%. Net margin was -14.7%.

- **Cash flow and reinvestment**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Cash flow & reinvestment												
Cash from operations % revenue	7.4%	(2.7%)	11.8%	14.7%	7.8%	8.9%	2.2%	10.0%	8.2%	3.2%	**7.1%**	**6.5%**
FCF margin (TIKR FCF / revenue)	6.1%	(3.7%)	10.9%	14.0%	6.8%	8.0%	1.4%	9.4%	7.5%	1.9%	**6.3%**	**5.6%**
FCF conversion (FCF / net income)	n.m.	(190.8%)	290.9%	93.7%	246.9%	n.m.	n.m.	64900.0%	n.m.	n.m.	**64900.0%**	**64900.0%**
Capex % revenue	1.3%	1.1%	0.9%	0.7%	1.1%	1.0%	0.8%	0.5%	0.7%	1.3%	**0.8%**	**0.9%**
D&A % revenue	4.5%	4.5%	4.2%	4.1%	4.6%	4.1%	3.2%	3.1%	4.0%	4.3%	**3.8%**	**3.7%**
Capex / D&A	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.3x	0.2x	0.2x	0.3x	**0.2x**	**0.2x**
D&A % beginning net PP&E		68.8%	63.8%	74.5%	43.8%	39.9%	36.2%	40.0%	56.4%	70.0%	**55.5%**	**48.5%**
Acquisitions % revenue	0.3%	0.9%	–	0.5%	2.9%	0.8%	1.3%	0.1%	2.6%	9.6%	**4.1%**	**2.9%**

Source: author's analysis based on Tikr data.

Operating cash flow fell to 3.2% of sales and free cash flow to 1.9%. CapEx is low (1.3% of sales) and equals just 0.3 times depreciation, which cannot be sustained forever. Acquisitions consumed 9.6% of sales.

- **Working capital**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Working capital												
Receivables days (DSO)	40.5	51.1	48.5	50.8	47.4	43.0	45.4	45.7	48.1	63.1	**52.3**	**49.1**
Inventory days (DIO)	48.4	57.7	53.5	47.9	70.8	56.2	62.1	52.8	60.3	74.2	**62.4**	**61.1**
Payables days (DPO)	64.8	69.9	69.2	72.7	82.5	86.2	103.8	83.3	88.7	109.5	**93.8**	**94.3**
Cash conversion cycle (DSO + DIO − DPO)	24.0	39.0	32.8	26.1	35.7	12.9	3.8	15.2	19.7	27.8	**20.9**	**15.9**
Deferred revenue % revenue	1.7%	1.7%	1.6%	1.7%	2.0%	2.8%	2.2%	2.1%	2.4%	4.3%	**2.9%**	**2.8%**
Operating NWC % revenue	(2.5%)	0.6%	0.5%	(1.8%)	(0.5%)	(5.3%)	(7.5%)	(6.5%)	(4.7%)	(6.9%)	**(6.0%)**	**(6.2%)**

Source: author's analysis based on Tikr data.

Days sales outstanding rose to 63 and inventory days to 74, the worst of the decade. Xerox offsets this by paying its suppliers later (109 days). Operating working capital is still negative (-6.9% of sales), but depends more and more on suppliers.

- **Returns on capital**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	770	669	704	847	248	307	168	245	98	11	**118**	**166**
Invested capital = debt + equity − cash & ST inv.	9,054	9,731	9,405	7,704	7,971	7,363	6,503	5,729	4,368	4,743	**4,947**	**5,741**
ROIC = NOPAT / average invested capital		7.1%	7.4%	9.9%	3.2%	4.0%	2.4%	4.0%	1.9%	0.2%	**2.1%**	**2.5%**
ROIC incl. cash = NOPAT / average (debt + equity)		6.0%	6.5%	8.1%	2.4%	3.1%	2.0%	3.6%	1.7%	0.2%	**1.8%**	**2.1%**
Pre-tax ROIC = EBIT / average invested capital (reference)		9.5%	9.8%	13.2%	4.2%	5.3%	3.2%	5.3%	2.6%	0.3%	**2.8%**	**3.4%**
ROE = net income / average equity		3.7%	6.7%	24.5%	3.3%	(8.7%)	(7.8%)	0.0%	(64.8%)	(104.1%)	**(56.3%)**	**(37.1%)**
ROA = net income / average total assets		1.1%	2.3%	9.0%	1.3%	(3.3%)	(2.6%)	0.0%	(14.4%)	(11.3%)	**(8.6%)**	**(6.3%)**

Source: author's analysis based on Tikr data.

ROIC fell to 0.2%, versus almost 10% in 2019. The ROE of -104% is distorted by very small equity, but the message is clear: today Xerox generates no return on the capital it employs.

- **Leverage and liquidity**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	4,093	4,224	4,152	1,896	2,161	2,696	2,926	2,957	3,064	4,070	**3,364**	**3,143**
Net debt / EBITDA	2.7x	3.1x	3.1x	1.3x	3.3x	3.9x	6.5x	5.5x	8.1x	12.9x	**8.8x**	**7.4x**
Interest coverage (EBIT / interest expense)	5.7x	7.5x	8.2x	10.8x	3.5x	4.3x	2.5x	4.8x	1.1x	0.1x	**2.0x**	**2.5x**
Debt / (debt + equity), book	56.0%	50.0%	49.9%	44.4%	45.2%	49.3%	52.6%	55.6%	73.6%	87.2%	**72.2%**	**63.7%**
Current ratio	1.50	1.91	1.45	1.79	2.33	1.66	1.23	1.14	1.12	1.11	**1.12**	**1.25**

Source: author's analysis based on Tikr data.

Net debt reached USD 4,070 million at the end of 2025, almost 13 times EBITDA, and interest coverage was just 0.06x. It is the most worrying block of the whole analysis.

- **Shareholder returns and valuation**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	46.5%	n.m.	91.0%	65.4%	108.9%	192.5%	267.6%	107.1%	28.9%	42.9%	**59.6%**	**127.8%**
EV / EBITDA	10.1x	8.8x	6.7x	8.3x	10.7x	9.6x	12.4x	10.6x	11.1x	15.2x	**12.3x**	**11.8x**
EV / revenue	1.4x	1.2x	0.9x	1.4x	1.0x	0.9x	0.8x	0.8x	0.7x	0.7x	**0.7x**	**0.8x**
P/E	n.m.	38.1x	13.0x	5.9x	24.0x	n.m.	n.m.	2253.0x	n.m.	n.m.	**2253.0x**	**2253.0x**
FCF yield (FCF / market cap)	7.5%	(5.0%)	22.3%	15.9%	10.3%	13.9%	4.5%	28.8%	44.6%	43.9%	**39.1%**	**27.1%**

Source: author's analysis based on Tikr data.

The EV/EBITDA of 15x does not mean Xerox is expensive, but that its EBITDA is very depressed. The 44% FCF yield does not mean it is cheap either: market capitalization is tiny compared with debt. Dividends have already been suspended.

SECTION 04

Management and capital allocation

Management is also in the middle of a transition.

Steve Bandrowczak stepped down as CEO in March 2026 and was replaced by **Louie Pastor**, until then President and COO. Pastor has been at Xerox since 2018 and has held roles in operations, transformation, administration, corporate development and legal.

This has an advantage and a disadvantage.

The advantage is that he knows *Reinvention* in depth and took part directly in the group's transformation, so he does not need to learn the business from scratch.

The disadvantage is that he cannot be considered an outsider fully independent of the decisions that brought Xerox to its current situation.

In addition, Xerox has had considerable turnover in executive roles, including the CFO position during 2025. In an integration process of this size, team stability will be important.

Company policy requires the CEO to hold exposure equal to **five times base salary**, and executives must retain at least 50% of the net shares received through their long-term incentives until they meet the corresponding requirement.

So there is some economic alignment, although much of the exposure comes from stock-based compensation and not necessarily from purchases made with their own money.

On capital allocation, priorities changed completely. Until 2024 Xerox paid a dividend of USD 1 per share and bought back stock. In 2025 it cut the dividend, in 2026 it suspended it, and today all cash goes to reducing debt and funding the integration. It is the right decision, but it came late: between 2016 and 2024 the company spent billions on buybacks and dividends while the business was shrinking.

SECTION 05

Competitive position

Competitive advantages

Xerox has real competitive advantages, but they have been shrinking over time.

Brand

Xerox has one of the historically most recognizable brands in the sector. That helps with corporate relationships, distribution and trust. However, a strong brand cannot protect a market whose size is shrinking.

Switching costs

A company that uses a fleet of Xerox devices integrated with its workflows, maintenance contracts and software will not necessarily change supplier for a small price difference.

There are transition, training, support and compatibility costs. They are real switching costs, although much weaker than those of an ERP or critical software.

Distribution and service network

The ability to install and maintain equipment in dozens of countries is hard to replicate. After the Lexmark purchase, the combined organization serves more than 200,000 customers in about 170 countries and holds a position among the five largest global players in the main printing categories.

Scale

Lexmark considerably strengthens this point. The combined company has greater purchasing power, its own production, the ability to spread R&D costs over a larger base and a better position to negotiate with suppliers.

Industry characteristics

The printing industry is mature, competitive and increasingly consolidated.

Large manufacturers need to maintain R&D, global service, complex supply chains and distribution channels even if units or printed pages are not growing.

That favors consolidation. The Lexmark acquisition can be read precisely that way. Instead of fighting a shrinking market individually, two companies combine volume and eliminate duplicate structures.

The positive point is that a gradual reduction in the number of competitors could improve pricing discipline. The negative point is that **consolidating a declining industry does not make it stop declining**.

Market share and TAM

Xerox claims to be a global leader in Print and Managed Print Services. After Lexmark, the combined company is among the top five players in Entry, Mid and Production Print within its relevant markets.

The company also highlights that about 65% of pro forma revenue comes from recurring sources and more than 10% from IT and Digital Solutions.

The TAM deserves a closer look.

The traditional printing TAM does not need to grow for the investment to work. Xerox can create value by gaining share and cutting costs within a stable or slightly shrinking market.

The real TAM expansion comes from **IT Solutions and Digital Services**.

Management explicitly acknowledges that one of its strategic goals is to increase the share of its customers' technology spending that Xerox captures.

That is why, rather than trying to project a huge aggregate IT TAM and assuming Xerox will capture a slice, I would prefer to follow something much more concrete: what percentage of revenue moves from Print to IT and Digital each year and whether those businesses manage to grow organically.

Main competitors

The most relevant competitors in Print are:

Canon. One of the largest global players in office equipment, production and imaging.

HP Inc. Especially strong in desktop printing, hardware and supplies, besides having huge scale in PCs.

Ricoh. Probably one of the closest peers in terms of exposure to office equipment, managed print and the shift toward digital services.

Konica Minolta. A relevant competitor in office and production print that is also trying to diversify into IT solutions.

Fujifilm Business Innovation. An important player especially in Asia and a long-time historical partner of Xerox.

Brother. More exposed to small devices and SMB (Small and Medium-sized Business), but relevant after Xerox's greater presence in A4.

Xerox directly identifies Canon, Fujifilm Business Innovation, HP, Konica Minolta and Ricoh among its main competitors.

I would separate IT Solutions, because comparing that division against Accenture, CDW or large IT service providers would not be especially useful at the consolidated level while it remains a small share of Xerox.

Porter's five forces

Rivalry among competitors: High
There are several global manufacturers with comparable products, recognized brands and large distribution networks.
In addition, low market growth means that gaining share usually means taking it from another player.

Threat of new entrants: Low
Entering printing at global scale requires technology, patents, manufacturing, distribution, business relationships and after-sales service.
Xerox's problem is not new printer startups.
It is existing competitors and product substitution.

Threat of substitutes: Very high
This is probably the worst competitive force for Xerox.
The main competitor of a printed page is not necessarily a Canon or HP printer. It is **not printing it**: digitization, cloud, e-signatures, collaborative documents and automation reduce the need for the product.

Bargaining power of suppliers: Medium
The combined Xerox-Lexmark scale should improve its negotiating position.
Lexmark's vertical integration and manufacturing also provide greater control of the supply chain.

Bargaining power of customers: Medium/high
Large companies and public administrations can negotiate relevant contracts among several global suppliers.
Switching costs and workflow integration partly reduce that power, but competition limits Xerox's ability to raise prices aggressively.

SWOT analysis

Strengths

- Extremely recognizable global brand.
- Large installed base and a high share of post-sale revenue.
- Relationships with large companies and about 90% of the Fortune 500.
- Significantly greater scale after Lexmark.
- Potential synergies of at least USD 350 million.
- A business with relatively low CapEx needs.
- A monetizable intellectual property portfolio.

Opportunities

- Integration of Xerox and Lexmark.
- Significant debt reduction.
- Cross-selling of IT Solutions and Digital Services.
- Expansion in A4 and Asia Pacific.
- Working capital optimization.
- Further industry consolidation.
- Additional monetization of non-core assets or intellectual property.
- Greater involvement of relevant shareholders such as STARTEEPO.

Weaknesses

- Shrinking organic revenue.
- Low margins.
- High debt.
- High financing cost.
- Currently weak FCF.
- Still very high dependence on the traditional printing business.
- Significant goodwill and intangibles.
- Recent management turnover.

Threats

- Structural decline in printing volume.
- Synergies that merely offset the contraction of the business.
- Lexmark integration problems.
- Debt refinancing at high costs.
- Further margin contraction.
- Additional impairments.
- Technological disruption.
- Recession or lower business investment.

SECTION 06

The bulls vs. the bears

What do the bulls say?

The first argument is **Lexmark synergies**: adjusted operating margin already rose more than 3 points in the third quarter and the company expects about USD 100 million of additional savings in 2027.

The second is **leverage working in its favor**: with a market capitalization of about USD 150 million versus an Enterprise Value of more than USD 3 billion, a small improvement in the business can multiply the value of the stock.

The third is **signs of stabilization**: the sales decline moderated and print equipment grew again for the first time since 2023, which should support supplies and services in the coming years.

What do the bears say?

The first argument is **debt**: USD 4.2 billion of total debt, almost no interest coverage and refinancing at ever higher rates (the new secured notes pay 10.25%).

The second is **structural decline**: fewer pages are printed every year, and synergies may end up merely offsetting the decline of the business instead of improving profitability.

The third is **credibility**: the company cut its 2026 free cash flow guidance by more than half, added another goodwill impairment of almost USD 1 billion, and IT Solutions, which was supposed to be the growth engine, fell 17%.

SECTION 07

Valuation

I built a ten-year **discounted cash flow (DCF)** model with two methods for the terminal value: **perpetuity growth** and an **exit multiple on EBITDA**. The target price is the average of both in the base case.

Model inputs and assumptions

2. Operating drivers by scenario (explicit forecast)

Driver	Δ vs Base	FY2023A	FY2024A	FY2025A	3Y avg	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Forecast year #						*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Revenue growth ▸ selected scenario		(3.1%)	(9.7%)	12.9%	**(0.4%)**	**8.2%**	**(3.5%)**	**(2.0%)**	**(1.0%)**	–	–	–	–	–	–
Best case	1.5%					9.7%	(2.0%)	(0.5%)	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Base case						8.2%	(3.5%)	(2.0%)	(1.0%)	–	–	–	–	–	–
Worst case	(2.5%)					5.7%	(6.0%)	(4.5%)	(3.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)
Gross margin ▸ selected scenario		33.6%	32.3%	28.9%	**31.6%**	**29.5%**	**29.8%**	**30.2%**	**30.5%**	**30.8%**	**31.0%**	**31.0%**	**31.0%**	**31.0%**	**31.0%**
Best case	1.5%					31.0%	31.3%	31.7%	32.0%	32.3%	32.5%	32.5%	32.5%	32.5%	32.5%
Base case						29.5%	29.8%	30.2%	30.5%	30.8%	31.0%	31.0%	31.0%	31.0%	31.0%
Worst case	(2.0%)					27.5%	27.8%	28.2%	28.5%	28.8%	29.0%	29.0%	29.0%	29.0%	29.0%
EBIT margin ▸ selected scenario		4.7%	2.1%	0.2%	**2.4%**	**4.5%**	**4.8%**	**5.3%**	**5.7%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Best case	1.5%					6.0%	6.3%	6.8%	7.2%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Base case						4.5%	4.8%	5.3%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Worst case	(2.0%)					2.5%	2.8%	3.3%	3.7%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Capex % of revenue ▸ selected scenario		0.5%	0.7%	1.3%	**0.8%**	**1.3%**	**1.4%**	**1.5%**	**1.6%**	**1.7%**	**1.8%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**
Best case	–					1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%	2.0%
Base case						1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%	2.0%
Worst case	0.3%					1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%

Source: author's analysis.

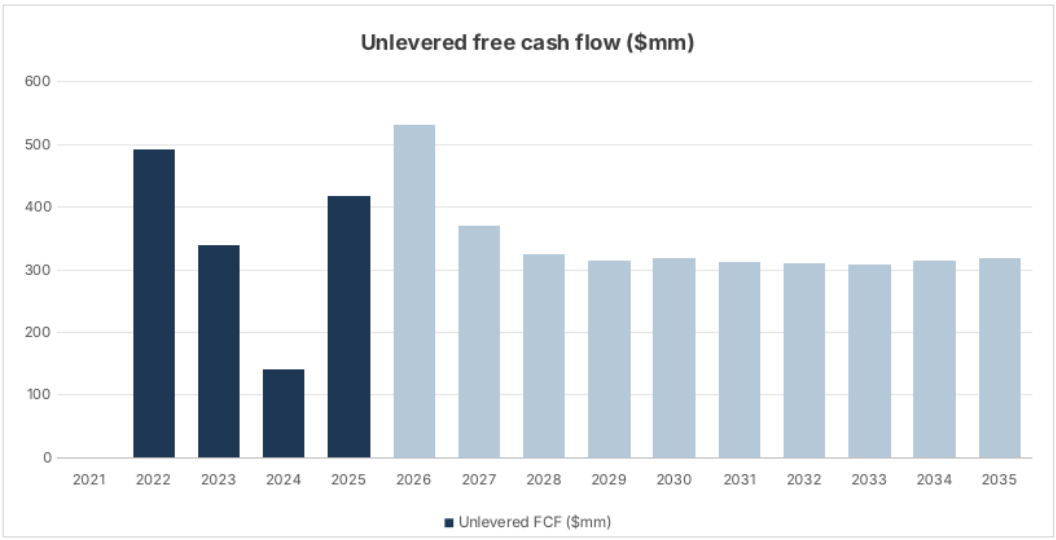
Revenue growth: in the Base Case I project 8.2% in 2026, explained by the consolidation of Lexmark for the full year and in line with guidance of about USD 7.6 billion. After that I project declines of 3.5% in 2027, 2% in 2028 and 1% in 2029, and flat sales from then on.

Margins: gross margin gradually improves from 29.5% to 31% and EBIT margin from 4.5% to 6% in 2030. I assume a relevant part of the synergies materializes, but that another part is eaten up by the decline of the printing business. I do not project a return to Xerox's historical margins.

CapEx: rises gradually from 1.3% to 2% of sales. It is important not to assume that Xerox can invest indefinitely far below its depreciation, because that would artificially inflate free cash flow.

What does each scenario mean?

- **Base Case:** synergies partly offset the decline of the business, sales stabilize from 2030 and EBIT margin reaches 6%.
- **Best Case:** the business stabilizes much earlier, IT Solutions returns to growth and synergies exceed expectations. It adds 1.5 points of growth per year, 1.5 points of gross margin and 1.5 points of EBIT margin.
- **Worst Case:** sales keep falling throughout the period, component costs and debt pressure margins and synergies fall short. It subtracts 2.5 points of growth, 2 points of gross margin and 2 points of EBIT margin, with higher CapEx.



Source: author's analysis.

Discount rate (WACC)

5. Discount rate (WACC)		Value
Risk-free rate		4.9%
Equity beta (levered)	x	2.50
Equity risk premium		4.2%
Country risk premium		-
Cost of equity		15.4%
Pre-tax cost of debt		13.0%
Tax rate (debt tax shield)		25.0%
After-tax cost of debt		9.8%
Market value of equity	$ mm	153
Total debt	$ mm	4,636
Debt / (Debt + Equity)		96.8%
Equity / (Debt + Equity)		3.2%
WACC		9.9%

Source: author's analysis.

I use a 4.9% risk-free rate, a 4.2% equity risk premium and a beta of 2.5 (the five-year historical beta is 2.69). The result is a **cost of equity of 15.4%**. For debt I use a 13% pre-tax cost: the new secured notes pay 10.25%, and the exchange of the 2028 notes at about 70% of face value shows the market demands much more from unsecured debt.

Because market capitalization is tiny relative to debt, equity represents just 3% of the capital structure at market values. That is why the **resulting WACC of 9.9%** depends almost entirely on the cost of debt.

To go from Enterprise Value to Equity Value I subtracted USD 4,636 million of total debt (including leases and the tariff refund financing), USD 214 million of preferred stock and USD 15 million of minority interests. I added USD 412 million of cash, USD 96 million of investments and about USD 1,200 million of finance receivables, since part of the debt funds those loans to customers and not the operating business (Xerox itself separates USD 2.9 billion of "core" debt). The result is net debt and other claims of **USD 3,157 million**. I use 140 million diluted shares, including those issued in the exchange.

Model results

PERPETUITY METHOD

With 0% perpetual growth and an 8% return on new invested capital, the model gives an Enterprise Value of USD 3,371 million and an Equity Value of USD 214 million, equivalent to **USD 1.53 per share**.

Xerox Holdings Corporation

XRX · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$1.53

Current share price	$1.09
Upside / (downside)	+40.1%

VALUATION SUMMARY

Enterprise value	3,371
Equity value	214
PV of forecast cash flows	2,015
PV of terminal value	1,356
Terminal value % of EV	40.2%
Implied exit EV / EBITDA	5.7x

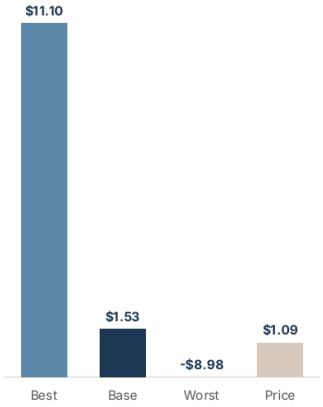
KEY ASSUMPTIONS

WACC (year 1)	9.9%
Terminal WACC	9.9%
Terminal growth (g)	0.0%
RONIC (terminal)	8.0%
Net debt & other claims	3,157
Diluted shares (mm)	140.0

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	1.0%	4,711	1,554	**$11.10**	+918.5%
Base case	0.0%	3,371	214	**$1.53**	+40.1%
Worst case	(1.0%)	1,900	(1,257)	**-$8.98**	(923.4%)
Current share price				*$1.09*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Terminal growth rate (g)

WACC / g	-1.0%	-0.5%	0.0%	0.5%	1.0%
8.9%	$4.20	$4.13	$4.06	$3.98	$3.89
9.4%	$2.91	$2.82	$2.73	$2.62	$2.50
9.9%	$1.74	$1.64	**$1.53**	$1.40	$1.27
10.4%	$0.68	$0.57	$0.45	$0.31	$0.16
10.9%	($0.29)	($0.41)	($0.54)	($0.68)	($0.84)

Source: author's analysis.

In the Best Case the value is **USD 11.10**. In the Worst Case the Enterprise Value falls below net debt, so the model gives a negative value. Since a share cannot be worth less than zero, the correct reading is that **in that scenario the equity would be practically worthless**.

The sensitivity table shows the problem better than any explanation: with a WACC one point lower, the value rises to USD 4.06; with one a point higher, the equity is worth nothing. When equity is just 6% of Enterprise Value, any small change in assumptions moves the value per share enormously.

EBITDA MULTIPLE METHOD

Applying a **6x** multiple to EBITDA in the last projected year of the Base Case (7x in the Best Case and 4.5x in the Worst Case), the model gives an Enterprise Value of USD 3,445 million and an Equity Value of USD 288 million, equivalent to **USD 2.06 per share**.

Xerox Holdings Corporation

XRX · Discounted Cash Flow · Exit Multiple Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$2.06

Current share price	$1.09
Upside / (downside)	+88.9%

VALUATION SUMMARY

Enterprise value	3,445
Equity value	288
PV of forecast cash flows	2,015
PV of terminal value	1,430
Terminal value % of EV	41.5%
Implied perpetual growth	0.5%

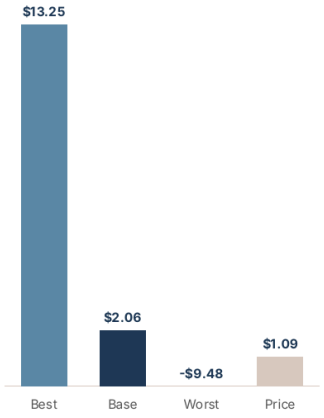
KEY ASSUMPTIONS

WACC (year 1)	9.9%
Terminal WACC	9.9%
Exit EV / EBITDA	6.0x
EBITDA, final forecast year	567
Net debt & other claims	3,157
Diluted shares (mm)	140.0

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	7.0x	5,012	1,855	**$13.25**	+1115.5%
Base case	6.0x	3,445	288	**$2.06**	+88.9%
Worst case	4.5x	1,830	(1,327)	**-$9.48**	(969.5%)
Current share price				*$1.09*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	4.0x	5.0x	6.0x	7.0x	8.0x
8.9%	($0.24)	$1.61	$3.46	$5.31	$7.16
9.4%	($0.81)	$0.97	$2.74	$4.52	$6.29
9.9%	($1.35)	$0.36	**$2.06**	$3.76	$5.46
10.4%	($1.87)	($0.23)	$1.40	$3.03	$4.67
10.9%	($2.37)	($0.80)	$0.77	$2.33	$3.90

Source: author's analysis.

6x is a reasonable multiple for a mature printing business without growth, in line with what the market usually pays for companies like HP or Ricoh. It implies 0.5% perpetual growth, consistent with the base case.

In the Best Case the value is **USD 13.25** and in the Worst Case the equity is again worthless.

Reading both methods together

Averaging both methods in the base case, I arrive at a **target price of USD 1.8 per share**, compared with a market price of USD 1.09. That is an upside of about 65%.

But in this case the target price says much less than the spread between scenarios: between zero and more than USD 11. Xerox is not a cheap stock in the traditional sense. It is an option on the success of the turnaround.

SECTION 08

Conclusion

Xerox is not the kind of company I would buy simply because it looks cheap. This is neither an attractive business nor an attractive industry.

The thesis depends on three variables: **sales stabilization, capture of Lexmark synergies and deleveraging**. The third quarter sent mixed signals. Sales are falling less and synergies are already visible in operating margin, but cash generation is much weaker than expected, guidance was cut sharply, IT Solutions fell 17% and debt is being refinanced at ever higher rates.

In my base case I get a **target price of USD 1.8 per share**, versus a price of USD 1.09. On paper there is upside. But with USD 4.2 billion of debt and a market capitalization of about USD 150 million, the equity works almost like an option: a small improvement in the business can multiply the value of the stock, and a small deterioration can take it to zero. And that second scenario does not have a low probability.

If all three variables go well, the current price may turn out to be too pessimistic. If any of them fails significantly, shareholders could lose everything.

In my opinion, it is better to avoid this kind of investment. The situation of the company and the industry makes future cash flows very hard to predict, and the outcome can be quite binary. I would not buy Xerox.

Alan



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