Seeking Alpha

Transcripts | **Consumer**

Xerox Holdings Corporation (XRX) CEO John Visentin on Q3 2019 Results - Earnings Call Transcript

Oct. 29, 2019 11:44 AM ET4 comments
by: SA Transcripts

Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.08 beats by $0.21 | Revenue of $2.2B (-6.46% Y/Y) beats by $6.6M

Earning Call Audio

Subscribers Only

00:00 -49:26

Xerox Holdings Corporation (NYSE:XRX) Q3 2019 Results Earnings Conference Call
October 29, 2019 8:00 AM ET

Company Participants

John Visentin - Vice Chairman and CEO

Bill Osbourn - CFO

Ann Pettrone - Director-Corporate Finance

Conference Call Participants

Matt Cabral - Credit Suisse

Ananda Baruah - Loop Capital

Shannon Cross - Cross Research

Jim Suva - Citigroup

Katy Huberty - Morgan Stanley

Operator

Good morning, and welcome to the Xerox Holdings Corporation Third Quarter 2019 Earnings Release Conference Call hosted by John Visentin, Vice Chairman and Chief Executive Officer. He is joined by Bill Osbourn, Chief Financial Officer.

During this call, Xerox executives will refer to slides that are available on the web at www.xerox.com/investor. At the request of Xerox Holdings Corporation, today's conference call is being recorded. Other recording and/or rebroadcasting of this call are prohibited without the express permission of Xerox. After the presentation, there will be a question-and-answer session. [Operator Instructions]

During this conference call, Xerox executives will make comments that contain forward-looking statements, which, by their nature, address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Mr. Visentin. Mr. Visentin, you may begin.

John Visentin

Good morning and thank you for joining our Q3 2019 earnings call. We delivered a strong quarter marked by increased cash flow, earnings per share and adjusted operating margin and we improved the revenue trajectory. Results were underpinned by the team’s strong execution of our strategy to drive revenue, optimize operations, innovate and focus on cash. We’ve recognized the challenges facing our industry, but have laid our focus on the opportunities and our path to standup a better more agile and competitive company for the future.

We’re pleased with our cash performance. We generated $356 million of operating cash flow in the quarter, an increase of $82 million from a year ago. Free cash flow was $339 million, up $88 million year-over-year. Adjusted operating margin for the quarter was

12.1%, up 120 basis points year-over-year, strong evidence of the hard work we're doing as a team.

Margin expansion contributed to adjusted EPS of $1.08 in the quarter, up $0.23 year-over-year. The benefits of near term revenue directive initiatives are starting to flow through results. Third quarter revenue declined 5.3% at constant currency year-over-year in line with expectations. While we've made progress, we've more work to do here. Results paired with our execution give us the confidence to raise guidance. We're increasing our free cash flow outlook to be in the range of $1.1 billion to $1.2 billion from $1 billion to $1.1 billion.

We're also raising our full year adjusted EPS to $4 to $4.10, up from our previously increased range of $3.80 to $3.95. We remain on track to deliver at least $640 million of growth savings this year due to Project Own It, our enterprise wide initiative to simplify and streamline our operations and build the culture of continuous improvement.

During the first half of the year, we started executing several components of Project Own It such as transforming our shared services operations. As I previously alluded to, we intentionally move fast knowing there would be some disruption. The strength of our third quarter demonstrates our ability to rebound and react fast to change. We remain focused on managing our shared services operations to mitigate the risk of further disruption.

Our investment initiatives are beginning to take hold. For instance, Robotic Process Automation, RPA is enabling parts of our order to cash operation to increase accuracy and reduce the amount of time it takes to generate complex invoices from days to minutes. RPA also is driving efficiencies in new areas such as pursuit and bid development. Using this technology to respond to multi-faceted bids allows us to respond to RFPs in record times and knock-out competitors. This technology helps us secure new business with one of the U.S.'s largest school districts for its intelligent workplace services. We see potential for RPA to be employed more broadly.

We believe our results show, we're marking meaningful progress towards establishing an operating framework that will continue to deliver sustainable productivity improvements. This momentum will continue into the next year as we progress with the planning of 2020 programs that we expect to generate at least $450 million of additional savings and allow us to increase investments in our business.

Our revenue roadmap is starting to take effect. However, there is more work to do to improve revenue and the team is laser focused on this. Our revenue trend improvement in the third quarter compared to the first half was largely driven by XBS, high end sale and our U.S. Enterprise business. XBS had the good quarter demonstrating the team's ability to rebound quickly from organizational and account changes we made.

Near term revenue generating investments in areas such as supplies and IT services also helped XBS improve its revenue performance from the first half. The trade and geopolitical friction was in Europe, particularly in developing markets continues to create a weaker economic environment. While [ERS] performance was in line with last quarter it was below our expectations. We did however see an improvement in transactional supply sales in Europe, where we made investments to improve the attach rate of Xerox supplies in unbundled equipment sales. To capitalize on growth opportunities in the region, we're increasing our focus on small and medium sized businesses.

Growing our software and services business is key to improving our long-term revenue trends. Healthcare, government, retail and insurance clients are experiencing fast evolving and user expectations, regulations and technological innovations that pose increasing challenges. We've designed a suite of industry specific services that leverage our full portfolio from device to software including DocuShare and XMPie that address these challenges and allows Xerox to move up the value chain.

Our industry specific services specifically Xerox services for digital patients and digital citizens are seeing traction with new clients such as the Cardiff Council of Wales and expanded business with clients such as the U.K.'s National Health Service. These services can also have an impact on the real world. In the case of Xerox services for digital patients, our offering enables doctors to have instant access to medical records helping to reduce the time to diagnose and treatment. Our services improved the patients' experience and more importantly let doctors focus on what really matters. Treating patients and saving lives.

We continue to invest in our core technology business and are seeing the benefits of this strategy. In the high end category, Iridesse continues to grow double-digits year-over-year. In the third quarter competitive knock-outs and new business drove nearly half of our Iridesse placements. Supporting our momentum in the high end is our recently announced Baltoro HF Inkjet Press. Compared to the competition, this first of a kind smaller press offers increased productivity and better image quality at a lower total cost of ownership. These differentiators have enabled us to build a strong pipeline within a few months and the team has started to deliver product.

We saw improvements in the mid range category. The product assessment where our rate of decline improved the most compared to the first half. We expect this momentum to continue with the recent launch of our PrimeLink line of equipment. In production, we believe there is no other competitor that can match with capabilities at this price point. PrimeLink positions us well to maintain our dominance in an area where we've led for the past five years.

In early 2020, our new embellishment accessory will further differentiate PrimeLink and allows to capitalize on our installed base in this fast growing segment. This accessory allows clients to produce EMEA with florescence, gold, silver, wide and clear embellishments that until now required offset printing or much larger production devices. We believe there is no technology on the market like this or at this price point. In fact, the association for print technologies named our embellishment accessory a game changer, awarding us a Vanguard Breakthrough award. The association also awarded the Baltoro with a Vanguard Pioneer award making Xerox the only company to win two Vanguard awards this year.

Xerox has long been one of Americas best known brands. To reenergize our brand and build greater awareness of today's capabilities, we launched a digital first color campaign at the start of the U.S. Open around the tennis balls' color, a new capability now available on the iGen 5. For the second installment, we announced Xerox's first color of the year clear, acknowledging this are debates on whether it's even a color. The new campaign approach is driving strong interest in the Xerox brand with engagement rates higher than industry benchmarks.

We said since February, we're going to capitalize on and commercialize the research coming out of our labs and we're making progress with our innovation roadmap. Two products, AI workflow assistance and 3D printing are nearing the commercialization phase. The promise of bringing 3D printing for manufacturing has long been a futurist vision for advancing the industry, building on decades of experience in printing and material science, Xerox is turning this vision into a reality. The Xerox difference is liquid metal technology and our AI based designed software which allows manufacturers to make complex parts in hours instead of days without sacrificing quality or strength.

Similarly, our SAAS based AI workflow assistant that support knowledge workers with authoring business document has potential to disrupt the RFP process, an area where company spends an estimated $60 billion annually. We expect to introduce commercially available products in these two areas in 2020. We're pleased with the progress we've made on increasing our cash flow and we still have more opportunity.

In the quarter, we improved all aspects of net working capital. Free cash flow in the third quarter was $339 million, up $88 million year-over-year. Our year-to-date free cash flow was $847 million, an increase of $195 million from the prior year. We repurchased $68 million of our shares in the quarter and distributed $61 million in dividends. As of the end of the quarter, we returned $551 million to shareholders including $368 million in share repurchases and we expect the repurchase at least $600 million of shares for the full year.

Before wrapping up, I want to directly address some of the most frequent questions we receive. There are macro-economic conditions such as trade and geopolitical uncertainties creating well known headwinds in our industry. Despite these conditions, we've been able to improve our operating margin and cash flows and increase our planned investments for the year. We're taking the required actions to mitigate the risk; these uncertainties could impose on our business.

Our strong cash flow means, we're well positioned to accelerate our growth through M&A and can pursue opportunities big and small. We've built a broad M&A pipeline that includes targets both within our industry and in adjacent markets. And we plan to deploy our capital opportunistically and strategically to increase our competitiveness and maximize the return on our investments.

Lastly, we conducted a thorough evaluation of our customer financing business. We received multiple attractive bids both for all and specific parts of this business and we took a methodical approach when evaluating these bids against the benefits of retaining the business. The bids confirm something we already knew, this is a valuable business. Given the strength of our balance sheet and where we are in our transformation journey, we determine that retaining and optimizing the business through Project Own It will generate the greatest return for shareholders.

Now I would like to hand it over to Bill to cover our financial results in detail.

Bill Osbourn

Thanks John. We are very pleased with our performance this quarter. As we said last quarter, we saw signs that our long-term strategy was gaining traction. Revenue in the latter half of the second quarter showed an improved rate of decline and we expected this trend to continue which it has. We increased planned investments as a result of first half margin expansion and continue to make these investments for the long-term while sustaining a profitable business in near term.

This quarter results from our transformational program Project Own It continue to materialize with expense reductions contributing 120 basis point improvement in adjusted operating margin year-over-year. On the top-line, total revenue declined 5.3% in constant currency which is an improvement in the rate of decline in the prior periods driven by improvement in North America where performance in our XBS channel continues to stabilize from the disruptions that impacted the first half.

We generated $339 million of free cash flow in the quarter, which was $88 million higher than last year and year-to-date we have generated $847 million of free cash flow which is a $195 million higher than the same period last year. Adjusted EPS in the quarter was $1.08 or $0.23 higher year-over-year reflecting the increase in adjusted operating margin, higher equity income, a lower share count and the impact of a gain on an asset sale that we closed in the quarter.

I will now review the income statement in more detail. Total revenue declined 5.3% in constant currency and 6.5% in actual currency. The constant currency decline reflects 190 basis points sequential improvement, which as I mentioned was largely driven by North America where we saw improvement in XBS as well as in large enterprise, which benefited from a large account refresh order in the quarter. EMEA performance was in line with last quarter and less than our expectations as certain countries remain impacted by an uncertain and weaker economic environment. I will discuss revenue dynamics in more detail shortly.

Turning to profitability, our adjusted operating margin of 12.1% improved 120 basis points year-over-year and drove $10 million in adjusted operating profit growth. And the majority of the improvement was driven by expense reductions as our Project Own It transformation continues to deliver and offset the pace of our revenue decline. The improvement also included a 20 basis points benefit from a $5 million write-off of IT projects in the prior year that impacted this year's comparison.

Next, gross margin was roughly flat in the quarter compared to last year as savings from Project Own It mostly offset a 20 basis point unfavorable impact from transaction currency. RD&E as a percent of revenue was 20 basis points higher primarily due to lower revenue as well as certain investments in topline that we discussed last quarter. SAG improved 150 basis points as a percent of revenue driven by cost reductions from Project Own It as well as a benefit in the prior year from a $5 million write-off of IT projects that impacted this year's comparison.

Below operating profit, equity income of $58 million increased $15 million year-over-year continuing the higher trends seen this year and reflecting improved performance from Fuji Xerox in 2019 partially as a result of their 2018 restructuring initiatives and lower restructuring charges. Other expenses net of negative $3 million was $60 million better than prior year this improvement includes $43 million of non-GAAP adjusted items of which the vast majority or roughly $35 million is due to lower non-service retirement related costs, reflecting the favorable impact of 2018 amendment to our U.S. Retiree Health plan and lower losses from pension settlements in the U.S.

Removing these non performance items, other expenses net improvement primarily reflects a $90 million gain on sale of non core asset. Overall, as I mentioned earlier adjusted EPS of $1.08 was up $0.23 compared with Q3 2018, primarily due to improved operations, share buyback, higher equity income and the asset sale. The lower retirement related cost is excluded from adjusted EPS performance while the asset sale and the impact of the prior year write-off of IT projects are included in adjusted EPS.

GAAP EPS of $0.96 was $0.62 higher year-over-year reflecting the improved operating performance as well as retirement related cost improvements, restructuring related costs including restructuring related to Fuji Xerox, amortization of intangible assets, transaction costs and related costs associated with the terminated Fuji transaction, other discreet unusual or infrequent items and the tax effect on these adjustments. In Q3, we reported $27 million of restructuring related costs bringing the year-to-date total to $176 million. We continue to expect up to $225 million of restructuring charges for the full year.

Moving now to slide 7, which is our cash flow. We are laser focused on managing cash and this quarter we generated $356 million of operating cash flow which is up $82 million year-over-year. Free cash flow was $339 million, up $88 million. Key cash flow drivers in Q3 included approximately $90 million source of cash from working capital which is better year-over-year in every area; accounts receivable, inventory and accounts payable.

Lower inventories reflect lower sales volumes and improved inventory management. The increase in cash from accounts receivable is due to lower revenues and to the timing of collections and the increase in cash from payables reflects the timing of purchases. Cash is a top priority for us and I'm very pleased with the improvement in working capital this quarter.

Contributions to define pension plans of $37 million was nearly flat year-over-year and cash for restructuring related payments of $17 million was $22 million lower than Q3, 2018. Year-to-date cash payments for restructuring totaled $71 million and when combined with $62 million of restructuring related payments reported in other current and long-term liabilities which were primarily related to severance payments associated with the shared services arrangement entered into HCL earlier this year and third-party consulting costs. We have spent approximately $130 million on restructuring. For the full year, we continue to expect up to $200 million of restructuring and related payments. Cash generated from finance receivables was lower year-over-year due to stronger originations. This is a good use of cash and we expect this trend to continue into Q4.

Through the third quarter we generated $895 million of operating cash flow and $847 million of free cash flow. CapEx of $48 million through September continues on the lower trend and we now expect full year CapEx to be around $75 million as compared to our previous expectation of $150 million. Therefore, we are raising our free cash flow guidance range for the full year by $100 million from $1.0 billion to $1.1 billion to $1.1 billion to $1.2 billion.

Lastly, with financing cash flows, we returned $129 million to shareholders in the quarter consisting of $61 million in dividends and $68 million in share repurchases. We managed our pace to share repurchase in line with our free cash flow generation and with the strong cash flow in the quarter, we were able to purchase shares. Through the first half, we returned $551 million to shareholders including $368 million of share repurchases and we expect to repurchase a total of at least $600 million of shares in 2019. We ended the quarter with $979 million of cash, cash equivalents and restricted cash on our balance sheet.

Let's turn now to slide 8 for more detail on revenue. Third quarter revenue declined 6.5% or 5.3% at constant currency. This included a 70 basis point negative impact from the run-off of the OEM business. Overall, the rate of revenue declined is in line with our expectation compared to the first half and is primarily driven by stronger performance in North America, while EMEA remains challenged particularly in developing markets.

Our XBS channel continued to bounce back from the disruptions we experienced earlier in the year, at the same time we saw the expansion of IT services in XBS with a large field primarily installed in Q3. We expect ten of our core XBS businesses around one-third of the channel to be selling IT services by year-end. Looking at the detail, equipment sale revenue was down 3.3% or 2.2% at constant currency compared to a 9% constant currency decline last quarter. We saw improvement in many areas, but the biggest positive impacts came from high end sales, large enterprise in the U.S. and the ongoing mitigation of earlier operational changes in XBS.

I'll briefly elaborate on each of these drivers. First, high end equipment sales grew this quarter reflecting continued strong demand for our Iridesse color production system and higher sales of our Versant entry production system. We are also seeing a good response to the Baltoro inkjet press announced last quarter, which received a prestigious award for unique breakthrough technology at the recent Print 19 trade show and our most recent forecast indicates that we are on track to meet our expectations for installations of the Baltoro press this year.

Next, in mid-range, the U.S. equipment revenue compared to the prior year reflecting a large account refresh in the U.S. some of which occurred earlier than anticipated. Last, our XBS units showed improvement in the rate of decline as it continues to stabilize from the operational changes that were put in place earlier this year. EMEA on the other hand continues to be challenged by a weak and uncertain economic environment, particularly in developing markets impacting overall revenue. However, installs of mid-range color products improved in Western Europe.

Post sale revenue declined 6.2% in constant currency, which was a slight improvement over the rate of decline in the first half. The IT services sale on our XBS channel that I mentioned earlier is recorded in post sale. We also saw an improvement in transactional supply sales in EMEA where we made investments to improve the attach rate of Xerox supplies in unbundled equipment sales.

Offsetting these positives were the contractual component, which continues to decline on trend reflecting lower page volumes, prior quarter equipment sales declines and higher mix of low usage products, as well as lower paper sales in Latin America. Services revenue which is included as a part of both equipment sale and post sale revenue streams declined 4.6% at constant currency overall, but grew in the SMB channel. Services revenue comprised approximately 38% of total revenue in the quarter and 30% of services revenue was from SMB. The decline reflects the factors driving equipment and post sale as well as the impact of lower signings in prior periods. We are increasing coverage in SMB and have actions in place to drive growth in this area, which we are expecting the gain more traction in 2020.

To wrap up on revenue, in our results we are beginning to see the impact of the revenue related investments we are making, such as the improvement in supplies and the expansion of IT services sales in our XBS channel. We remain focused on our strategy and investing to achieve our strategic goals and are maintaining our full year revenue guidance to be down approximately 6% at constant currency.

Turning to slide 9, as mentioned earlier, adjusted operating margin of 12.1% increased 120 basis points year-over-year reflecting the progress of our Project Own It program which is on track to deliver $640 million of gross savings this year and provides an offset to the impact of revenue declines while enabling investments for future growth.

We are maintaining our adjusted operating margin guidance to be in the range of 12.6% to 13.1% full year. Our adjusted EPS expanded 27% year-over-year to a $1.08, therefore we are increasing our full-year adjusted EPS guidance from $3.80 to $3.95 to $4 to $4.10. This also incorporates expectations for investments in Q4, as well as the current assessment of the impact of tariffs that recently went into effect. While we are taking actions to mitigate the impact of these tariffs such as raising prices on certain products, at this time we are estimating approximately $24 million cost impact from tariffs in 2019 with a significant portion occurring in Q4.

Last, I will review our capital structure and I'll wrap up with a few words on the leasing business. We ended the third quarter with $4.8 billion of debt unchanged from last quarter, but approximately $400 million lower compared to year end as we repaid a March bond maturity with cash. We breakdown our debt between financing debt and core debt, financing debt is allocated by applying a 7 to 1 leverage to our finance receivables and equipment on operating lease which together comprise our total financed assets.

Core debt was approximately $1.6 billion, which is well inside our target core debt level of less than 2x annual free cash flow. We ended the quarter with $979 million of cash, cash equivalents and restricted cash and our core debt net of cash was approximately $600 million. As the debt ladder reflects, we have a $550 million bond maturing in December this year. We believe, we have access to capital sources as well as sufficient liquidity to handle upcoming debt maturities. In addition to the $979 million of cash, cash equivalents and restricted cash, we have a $1.8 billion bank revolver which is undrawn.

Another important element of our capital structure is our pension assets and liabilities. As of December 31, 2018, our net unfunded position was $1.2 billion which compares to $1.4 billion as of the end of 2017 and $2.2 billion as at the end of 2016 and it includes approximately $775 million of unfunded pension liabilities, which by design do not get funded. From a funding perspective, we continue to expect contributions of approximately $140 million in 2018, and believe we're well positioned to have a stable level of pension contributions overtime.

Before turning back to John, I'll provide some detail around the review of our customer financing business. As part of our business transformation, we embarked on the comprehensive strategic review of our entire business and customer financing was one component of that. As part of this review, we evaluated our own operations as well as a number of alternatives including a sale of all or a portion of the business. We received multiple bids with attractive premiums, but considering the IRR, ROI and cash flow yield of the bids received compared to retaining and optimizing the business through Project Own It as well as given the strength of our balance sheet and where we are in our transformation journey, we determined that retaining the business will generate the greatest return for shareholders.

Now to wrap up, we continue to execute on our strategy and this quarter we are seeing results. We improved our revenue trajectory sequentially and we are on track to meet our full year revenue guidance of down approximately 6% at constant currency. We also delivered strong cash flow in EPS, which allows us to increase our guidance for both of these measures.

I will now hand it back to John to summarize before we move to Q&A.

John Visentin

Thanks Bill. Our strong financials are an important part of our transformation story. But there are only one part. The hard work our employees have done over the last 18 months is yielding result. Our transformation is ongoing and we know we still have more to do. We are confident in our long-term strategy to return Xerox to growth and excited about the future.

We will now open the line for questions. Ann?

Ann Pettrone

Thanks John. Before we get to the Q&A with John and Bill, I will point out that we have in the appendix to our materials additional supplemental reconciliations and posted on our Xerox Investor Relations website a full set of earnings materials. Operator, please open the line for questions now.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Matt Cabral of Credit Suisse. Your line is now open.

Matt Cabral

Thank you. I wanted to start off on revenue. Wondering if the XBS account transitions that you talked about being a challenge in the first half of the year, if those are fully back to run rate yet or if there's still work to do to improve execution there? And then, going into next year, just if you can talk about, if you're still comfortable with the guidance for down 3% that I think you laid out at the Analyst Day earlier this year?

Bill Osbourn

Matt, it's Bill. So addressing the first question XBS, as we said in our prepared remarks we're pleased with the improvement in Q3 and moving into past, lot of the disruption that occurred earlier in the year. With that said we still believe that there is improvement to be had there in Q4 and going forward within XBS. As far as guidance, really until, we will give guidance on 2020 in our yearend earnings call late January. So this time we're not formally updating guidance for revenues for 2020.

Matt Cabral

Got it. And then, margins continue to be the bright spot for you guys. John, I'm wondering if you talked a little bit more about the progress of Project Own It? Now that you're about a year into the initiative and in particular how you think about the potential for additional upside for the balance of this year going into next year and I think you had laid out 450 million for 2020 initially. So I am just wondering if that's still the plan.

John Visentin

Yes. Hi, Matt. That is still the plan. So we implemented a lot of changes with Project Own It. We reconfigured our go-to-market, our DMO, we transferred 28,000 accounts to XBS. We consolidated our real estate footprint and we're pretty much on plan to deliver $650 million, at least $650 million of growth and now we're getting on track to deliver our growth savings for 2020 which is $450 million.

Matt Cabral

Thank you.

Operator

Thank you. And our next question comes from Ananda Baruah of Loop Capital. Your line is now open.

Ananda Baruah

Hi, good morning guys, appreciate you guys taking my question. A couple of revenue and then a free cash flow question, quickly if I could. So clarification, it sounds like, I hear you guys say that you achieved your revenue targets, your eternal target for September quarter?

Bill Osbourn

Yes. I would say if you look at the guidance we gave, the updated guidance at the end of Q2 being down approximately 6% for the full year that implied with the first half being around 7.1%, the second half would be around 5%, at constant currency down we ended up at 5.3. So, we're always striving to do better, but it was in the zone of what we were thinking about for the second half and being in the 5% zone.

thinking about for the second half and being in the 3% zone.

Ananda Baruah

Yes, no doubt, that's helpful Bill, thanks. And could you just sort of rinse for us what you're seeing is the sort of order of magnitude, the contributing factors to the improvement you saw later in the June quarter and then sort of tracking to your expectations, sort of September quarter and forward? How much do you think, I mean, eventually couple things is new products is obviously the structure Own It initiatives, it sounds like you have some refresh of what's going on and then just sort of plain old macro. Anyway to bridge for us, you guys personally what you're seeing as the strength contributors that would be helpful and then I have quick follow up.

John Visentin

So Matt just to be clear you are talking more on the revenue standpoint or cash?

Ananda Baruah

On the revenue?

Bill Osbourn

On the revenue standpoint? So yes, I mean we sort of forecasted what we would be thinking would be happening in the Q3, based on what we saw late in Q2, we saw XBS starting to pick up late in the second quarter. We knew the pipeline. We had an IT sale coming, but with it said, in other areas like large enterprise and high end, there was the large customer refresh in the large enterprise that helped mid-range, but overall large enterprise performed well relative to our expectations in Q3 and high end, Versant and Iridesse demand continues to be strong and we were pleased with that.

Ananda Baruah

It sounds like for you guys it's more structural and that this stuff is somewhat incremental and maybe sustainable in the context that whenever a macro backdrop is?

Bill Osbourn

Yes, I think some of it is sustainable. You guys heard me, obviously we talked to the one large IT sales for other things within large enterprise, there was a refreshment overall things were doing well there and also in the supply side as we talked about in our prepared comments the unattached cash supplies we made investments in that area and we saw improvements in the unattached supplies, post sale revenue performance and we're expecting that to continue on into the future also.

Ananda Baruah

Thanks guys, one last quick one for me. You talked about the reduction in CapEx for this year. Is that really what's leading to the increase in the free cash flow guide or is there something more structural? I know this won’t work in cap improvements and really what I'm wondering is your guiding up the free cash flow goal for this year. I know that in your three-year plan from Analyst Day, the intent was to continue each of the next three years to improve upon free cash flow. Now that you sort of reset the level up here, should we continue to expect sort of the aesthetic, the spirit of the three year plan to continue? So regardless of where you come in for 2019 free cash flow, can you increase in 2020, can you increase in 2021 still? And that's it for me, thanks.

Bill Osbourn

Yes. So couple things. So the free cash flow you are right. The CapEx contributes to that that also our confidence in that range raising, the range also comes from stronger working capital management throughout the year. So it's a combination of the two that's giving us confidence and raising the range. As far as guidance to the future in our three-year plan for 2020 was 1.1+. I'm pretty sure, we laid out there at Investor Day and we're not formally updating guidance at this point, but we're confident that 1.1+ still holding for 2020 and beyond.

Ananda Baruah

Great, thanks so much guys.

Operator

Thank you. And our next question comes from Shannon Cross of Cross Research. Your line is now open.

Shannon Cross

Good morning and thank you so much for the questions. I was wondering if we could start by talking about what kind of a competitive landscape you're seeing, clearly Xerox outperformed certainly in the U.S. But I'm curious as to pricing, how some of the competitors who are struggling a bit more than you are reacting to the situation. If you can just provide some color that'd be great?

John Visentin

Yes Shannon, its John here. What we're doing is, we're focused on a maniacal execution of our strategy. So we've invested in our transactional supplies organization and we're putting a focus directly on the clients. And we will always see a pressure on pricing, but if you think of our solutions where 85% of our businesses are wrapped in services that's a strategy that we have that's working for us and we're seeing a lot of competitive win backs with our new products like Baltoro and PrimeLink, those are competitive advantages. We're seeing some traction there, but it's really on investments and it comes down to blocking and tackling and that's where we are with the competitors right now.

Shannon Cross

And then, with regard to the large deal you had this quarter just, are there any more large deals in the pipeline in the near term and is that deal completely installed at this point or did some of it fall through to fourth quarter?

John Visentin

The large product represses was certain large customers, it will happen periodically each year, throughout the years. This one was mostly installed during the quarter. So it might be a little going on Q4, but with that said, even outside of that our large enterprise performed well especially in the U.S. And so, we have a confidence of continued strong performance going into Q4 even without those large customer refreshes, which tend to be more periodic in nature.

periodic in nature.

Shannon Cross

And then, my last question is just on M&A. Curious your balance sheet is in pretty good shape, is there willingness to lever up the balance sheet or we're looking at more sort of tuck-in deals and what kind of valuations are you finding out there? Thank you.

Bill Osbourn

What we said is that we're not going to comment on our M&A, but we've built a pipeline both looking at large and tuck-in and we're going to go through our vigorous analysis of it whether it's ROIC, looking at cash flow yields, looking at how it fits into the business, whether it's an adjacent or not into what we do and tuck-ins what we continue to look at tuck-ins, but all of it we're looking at it in evaluation. So we're using our evaluations to make sure that we're making a right flow.

Shannon Cross

So size is not as much of a consideration as contribution?

Bill Osbourn

No. It's not a question of size, it's really a question of where does it fit with us and then does it fit the metrics we're looking for it and it's all the usual suspects whether it's IRR, cash flow yield, ROIC where does that fit into the metric, EBITDA evaluation. So, we got a whole list that we go through and what we're saying is we're looking what size is not of an issue right now. We continue to look at tuck-ins and we continue to look at different opportunities.

Shannon Cross

Thank you very much.

Operator

Thank you. And our next question comes from Jim Suva of Citigroup. Your line is that open.

Jim Suva

Thank you very much. You've provided a lot of commentary and additional details which is greatly appreciated. I just have one question and that is, you increased your cash flow, your earnings, you made a lot of progress, but this stock buyback you kind of kept the same, maybe it's because the question you mentioned are the same in at least. But also it seems like on this earnings call maybe just what I picked up with my ear, you mentioned maybe M&A a little bit more than in the past. So is M&A be taking a higher priority than in the past or am I just kind of hearing that and kind of pulling that out as far as a priority?

Bill Osbourn

Yes, I wouldn't necessarily say that. We evaluate our capital allocation continuously. We have a plan for the beginning of the year and we will evaluate it throughout the year. We're comfortable with the $600 million this year in share repurchases and as John just said on M&A front, we're looking at various sizes deals to the extent that would make sense and complement our company at the right price.

Jim Suva

Right, but you got a lot more cash flow coming in and lower CapEx spending than previously thought. So I'm kind of wondering where do you kind of earmark those dollars to go to.

Bill Osbourn

Yes. I mean, we have flexibility in our allocation obviously earlier this year we paid down $400 million of debt that was due. We have $550 million. It's coming due here in the December timeframe that we'll evaluate on how to deal with that. We may initially pay for that out of our funds on hand and then refinance that later. But we believe, as you point out, the strong cash flow does provide us flexibility whether its additional share repurchases or M&A as John spoke to.

Jim Suva

Thank you so much for additional questions and answers. It's appreciated.

Bill Osbourn

Thanks Jim.

Operator

Thank you and our next question comes from Katy Huberty of Morgan Stanley. Your line is now open.

Katy Huberty

Thank you, good morning. What did demand linearity look like in Europe, did it deteriorate as you move through the quarter or was it just consistently weak? And you mentioned investments in SMB market within Europe. How long do you think it takes for those investments to convert to better growth?

Bill Osbourn

Yes. The demand in Europe was pretty much weak throughout the quarter for the most part. We didn't see it increasing or decreasing. I should say, it was weak relative to our expectations. We had expected Europe to do better in Q3 than it did. Americas performed within or slightly better than our expectations. I wouldn't say that there was really a ramp up as far as weakness in Europe during the quarter, but it was below our expectations throughout the quarter.

Katy Huberty

And SMB investment impact?

Bill Osbourn

Yes that some of it will take effect sooner than later to the extent we're looking at tuck-ins, those tuck-ins that are XBS like that we're looking to do that potentially over in Europe also obviously it's a timing of windows with them, with close or the extent we find those to actually act upon and then other areas as far as sales coverage, we're seeing particularly with XBS. We made investments in terms of trying to get better sales coverage and working through disruption we talked to earlier this year and we've seen a fairly quick response and turnaround with respect to that in Q3.

John Visentin

And if you think of our investments Katy, like our guidance for fourth quarter it doesn't materially change economic environment in Europe or for the year frankly. But, we are making investments now that in some cases can take a little bit longer. No different than what we have done in the last few quarters.

Katy Huberty

That's helpful and then just one other follow-up. Fourth quarter implied EPS guidance is a little bit lower than where consensus was coming into this quarter, is that just conservatism or timing of how it's impacting the most?

John Visentin

So, a couple of things. So yes, I was actually waiting for that question to come. I knew it would come here at some point. We looked at closely a couple of things to think of. One thing is the investments we are talking about. On last call we said, we would be ramping up in the second half of the year, the level of investments and that's true even from Q3 to Q4 in the investments we are making whether in the revenue side or on the Own It side. Those investments will clearly impact the core, but it will benefit us for the long term. There also will be an increased impact, Q4 we expect to have greatest impact of the year from the tariffs that were enacted in the September timeframe. And obviously that will have a year-over-year impact also. But those are just a couple of items to look to, but I think the high end of the range gets close to about what we were last year, but we just have those couple of variables that I mentioned.

Katy Huberty

Great, thank you so much.

Operator

Thank you. And ladies and gentlemen this does conclude our question-and-answer session. I would now like to turn the call over to John for any closing remarks.

John Visentin

Thank you everybody for being on the call. While we made progress, we have more work to do. And in each quarter we get better, but we will continue to do so by remaining laser focused on executing our strategy. Thank you for joining the call today.

Operator

Well, ladies and gentlemen this concludes today's conference call. Thank you for participating. You may now disconnect.