



Bulls See Value in Xerox as It Attempts HP Takeover

Ticker/Price: XRX (\$34.85)

Analysis:

Xerox (XRX) on 2/24 with a buyer of 10,000 April \$36 calls to open at the \$1.30 offer, size trade in a name with 10,000 March \$40 OTM calls recently opened and 10,000 April \$37 calls bought to open back on 1/24 for \$1.337M. XRX shares dipped back to just above its rising 200 day MA to start the week, and closed just above its 38.2% retracement level of the Summer 2019 low to late 2019 high. The \$7.63B IT Services company specializing in document management and digital solutions trades 9.4X Earnings, 8.47X FCF and 6X EBITDA with a 2.87% dividend yield. XRX's outlook for revenues continues to see contraction while EPS seen growing just 3% in 2020. The company recently revised its proposal to merge with HP (HPQ) but it continues to be shot down. Carl Icahn is involved in both companies and could become a swing-factor. XRX has also been focused on its Project Own It, an enterprise-wide transformation initiative to optimize operations, drive investments back into its business and create a culture of continuous improvement. At the heart of Project Own It is simplification, redesigning 7 key areas across the organization so it can better serve clients, generate savings that can be reinvested in the business and position Xerox for a return to growth. The 7 areas of focus we laid out are: shared services, procurement, IT, delivery, supply chain, real estate and organizational design. On its last earnings call it spoke about the HP offer "With respect to our proposed acquisition of HP, the value of this transaction goes beyond economics. The printing industry is decades overdue for consolidation, and the first mover will have a significant advantage. As laid out in the investor deck we released in December, we have identified significant costs and revenue synergies that are only achievable through a combination. A combined company would be both more profitable and better positioned to diversify into higher-growth markets. Any restructuring that either company undertakes in the interim is simply incremental and does not diminish the scope or scale of this opportunity for both HP shareholders and Xerox shareholders." Analysts have an average target of \$41 on XRX shares and short interest is 3.6% of the float. Loop Capital raised its target on shares to \$47 in November positive on the company's prospects with or without the HP deal as new management is committed to a transformation and shares are cheap on a FCF basis. Hedge Fund ownership rose 6% in Q4 filings with Coatue Mgmt. taking a new position.

Hawk Vision:



Hawk's Perspective: XRX versus the 200 MA looks attractive and its valuation and flows continue to suggest eventual upside coming, nice reward/risk down here.

Confidence Ranking: \$\$