

Edgar Filing: AFFILIATED COMPUTER SERVICES INC - Form 425

AFFILIATED COMPUTER SERVICES INC

Form 425

September 28, 2009

Filed by Xerox Corporation

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12 under the

Securities Exchange Act of 1934

Subject Company: Affiliated Computer Services, Inc.

Commission File No.: 1-12665

The proposed merger transaction involving the Company and ACS will be submitted to the respective stockholders of the Company and ACS for their consideration. In connection with the proposed merger, the Company will file with the SEC a registration statement on Form S-4 that will include a joint proxy statement of the Company and ACS that also constitutes a prospectus of the Company. The Company will mail the joint proxy statement/prospectus to its stockholders. **The Company and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information.** You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about the Company and ACS, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from the Company's website, www.xerox.com, under the heading "Investor Relations" and then under the heading "SEC Filings". You may also obtain these documents, without charge, from ACS's website, www.acs-inc.com, under the tab "Investor Relations" and then under the heading "SEC Filings".

The Company, ACS and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the respective stockholders of the Company and ACS in favor of the merger. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective stockholders of the Company and ACS in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about the Company's executive officers and directors in its definitive proxy statement filed with the SEC on April 6, 2009. You can find information about ACS's executive officers and directors in its definitive proxy statement filed with the SEC on April 14, 2009. You can obtain free copies of these documents from the Company and ACS websites using the contact information above.

This release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: the unprecedented volatility in the global economy; the risk that the future business operations of ACS will not be successful; the risk that we will not realize all of the anticipated benefits from our acquisition of ACS; the risk that customer retention and revenue expansion goals for the ACS transaction will not be met and that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009 and our 2008 Annual Report on Form 10-K and ACS' 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Xerox to Acquire
Affiliated Computer Services
September 28, 2009
Ursula Burns
Chief Executive Officer, Xerox
Larry Zimmerman
Vice Chairman & CFO, Xerox
Lynn Blodgett
President and Chief Executive Officer, ACS

2

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improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other factors that are set forth in the Risk Factors

section, the Legal Proceedings

section, the Management's

Discussion and Analysis of Financial Condition and Results of Operations

section

and other sections of Xerox's Quarterly

Report on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, Xerox's 2008 Annual Report on Form 10-K and ACS's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Neither Xerox nor ACS assume any obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Forward-Looking Statements

3

Xerox to Acquire ACS

Compelling financial combination
with strong strategic opportunities
for growth by leveraging:

Xerox's industry-leading
document management, brand
strength, global account
management and R&D
investments.

ACS's industry-leading BPO capabilities, process automation competencies and services talent management.

Significant expense and revenue synergies

Creates a new class of solutions provider with leading technology and expertise in document and business process management.

4

Transaction Overview

Key Transaction Terms

Xerox acquires 100% of ACS Class A and Class B common stock

Consideration of approximately 70% stock and 30% cash

ACS shareholders will receive 4.935 Xerox shares and \$18.60 in cash for each Class A and Class B share

Transaction includes refinancing of \$2B of ACS debt

Issuing \$300M of convertible preferred stock to ACS Class B shareholder

Approvals and Timing

Regulatory and shareholder approval

Closing expected in 1Q 10

5

Evolving market demand

Xerox + ACS: A New Class of Solutions Provider

The lines between business
process and document
management are blurring

Customers need service providers
with global capabilities offering a
full range of solutions

Enterprises will continue to reduce
costs through outsourcing

requires a new solutions provider

World leader in document and
business process management

Global delivery network

Best-in-class document
technologies and services

Leadership centered around the
information needs of the business
process

Compelling customer value
through innovative, differentiated
offerings

6

ACS Today

ACS is the largest worldwide diversified business
process outsourcing company

Diversified portfolio of BPO services

Vertical focus on education, transportation,
communication, healthcare, federal/ state/ local
government, financial services, manufacturing,
consumer goods and retail

Strong revenue growth and margin performance
through the recession

Record business signings, revenue and earnings
in fiscal 2009
Recurring revenue under long-term contracts
Highly-regarded management team
Leverageable
technology platforms
Consistent cash flow generation
Culture of flexibility, responsiveness, reliability and
integrity
Free cash flow

1
generation (\$M)
Revenue and operating margin

1
(\$B)
1

See slide 17 for explanation of non-GAAP measures

Note: ACS

has
a
June
30
th
fiscal
year-end

\$5.4

\$5.8

\$6.2

\$6.5

10.6%

10.5%

10.5%

10.9%

2006

2007

2008

2009

Revenue

Operating

margin

\$518

\$514

\$378

\$208

8.4%

7.9%

3.9%

6.6%

2006

2007

2008
2009
FCF
% revenue

7

The combination of Xerox and ACS yields a strong financial model

Note:

Combined

Company

on

a

pro

forma

basis,

LTM

Last

Twelve

Months

1

See slide 17 for explanation of non-GAAP measures

World leader in document and business process

management

Total Revenue

Annuity Revenue

Services Revenue

Operating Margin

Adjusted EPS CAGR

1

Free Cash Flow

1

\$22B LTM

~80% total revenue

Accelerated expansion

\$10B LTM

Double digit growth

\$2B LTM, 8+% of revenue

8
Complementary Businesses
Xerox LTM 6/30 revenue
ACS FY2009 revenue
U.S.
\$14.6B
65%
Europe
\$5.6B
25%
Combined
Geographic
Segments

Products/
Services
Segments
BPO
\$5.1B
79%
ITO
\$1.4B
21%
U.S.
\$6.0B
92%
Other
\$0.5B
8%
BPO
\$6B
27%
Post Sale excl
Services
\$8.8B
39%
Equipment
Sales
\$4.0B
18%
1
Post Sale
\$12.0B
75%
Equipment
Sales
\$4.0B
25%
U.S.
\$8.6B
53%
Other
\$2.1B
14%
Europe
\$5.3B
33%
Significant scale
\$22B revenue
Nearly 50% services
Significant
international expansion
opportunities
Significant

cross-selling opportunities

~20% customer overlap

Other

\$2.3B

10%

ITO

\$1.4B, 6%

MPS

\$2.3B

10%

Note: MPS is Managed Print Services

9

Material Synergies

Expense Synergies

Overlapping public company costs

Cross-deploy Xerox technology and
ACS's process expertise to increase
automation and efficiency

Revenue Synergies

Penetrate Xerox global accounts with
ACS's BPO solutions

Penetrate ACS ITO accounts with
Managed Print Services offering

Use Xerox technology to create new
automated and differentiated BPO
services

Year 1 pre-tax cost synergies > \$95M

\$300M to \$400M in annualized pre-tax
cost synergies in three years

Synergy assumption includes
cumulative \$50M to \$75M of
restructuring costs over three years

Additional cash benefits

\$250M+ over 3 years

Upside revenue synergy potential
significantly higher than cost
synergies

Tangible and Achievable Synergies

9

10

A Compelling Financial Profile

Enhanced profitability and growth profile

Recurring, annuity business model

Accelerated margin expansion

Strong and consistent revenue and cash flow

Attractive

Financial

Model

Opportunity
for Value
Creation
Strong
Balance
Sheet

Significant synergy potential arising from new revenue opportunities and operating efficiencies

Enhancing revenue growth, operating margins, free cash flow and adjusted earnings in Year 1

Committed to maintaining investment grade rating

Significant liquidity profile pro forma

Approximately \$1.0 billion to be financed through combined company cash and existing revolving credit agreement

Approximately \$3.0 billion to be financed in capital markets

11

A Powerful Value Proposition

Transformational transaction that creates a new class of solutions provider

Leverages the strengths of two best-in-class companies to create a global, diversified leader in providing document management and services

Enhances Xerox's strategic posture and positions the company for long-term growth, accelerated margin expansion and earnings appreciation

Strong combined management team with commitment to equity appreciation to drive shareholder value

Supplemental Slides

13

Xerox Today

Generating strong and consistent cash flow
through a challenging environment

Investing in growth and winning in the
marketplace

Maintaining operating margins in tough
environment through disciplined cost
management

Delivering and maintaining strong balance
sheet

Free

cash

flow

1

generation

(\$B)

Revenue

and

operating

margin

1

(\$B)

Delivering on commitments

1

See slide 17 for explanation of non-GAAP measures

\$15.7

\$15.9

\$17.2

\$17.6

\$16.0

9.6%

10.0%

8.4%

7.4%

9.0%

2005

2006

2007

2008

LTM

Revenue

Operating margin

\$1.2

\$1.3

\$1.5

\$1.2

\$1.3

8.3%

8.8%

6.9%

8.7%

7.5%

2005

2006

2007

2008

2009E

FCF

% revenue

14

Electronic toll collection

Fare payment & collection

Commercial carrier solutions

Port management solutions

Automated motor carrier tax &
regulatory processing

Public safety photo

enforcement

Traffic & parking management

DMV customer care

Data center outsourcing

Network management services

Desktop management & help desk

Remote Infrastructure Management

ACS Diverse Service Offerings

Commercial Solutions (~60% Revenue)

Government Solutions (~40% Revenue)

Information Technology Outsourcing

State & Local

Government Healthcare

Transportation Solutions

Commercial Services

Transactional BPO

Commercial ITO

Government Solutions

21%

20%

19%

Federal Solutions

Transportation Solutions

28%

12%

% Total 2009 Revenues by reportable segment

Child support payment

processing services

IT services

Eligibility determination &

case management

Electronic benefit transfer

services

Government records

management services

Unclaimed property services

Public safety and justice

systems

Tax and revenue systems

Medicaid administrative & fiscal
agent solutions

Pharmacy benefits management
services

Children's health administration

Electronic health records

Student loan servicing

Healthcare claims processing

Electronic payment cards

Administrative services

Customer care

HR consulting: retirement, health &
welfare, strategy, compensation,
talent management

HR outsourcing: employee service
center, employee data management,
payroll

Total Benefit Outsourcing: record
keeping, self-service portal, customer
care

Learning: technology services,
content development, administration

Commercial Education: student loan
servicing, student financial aid,
enrollment management

Financial Services: processing
services to auto financing & leasing
companies

A/P, AR, general accounting, close
process, procurement, treasury &
cash management, expense

reimbursement

Human Capital Management Services

Commercial Ed & Financial Svcs

Finance & Accounting

Wireless customer care: customer
acquisitions, device support, loyalty
plans & collections

Retail: supply chain efficiency,
inventory management, data
collection

Claim processing, billing, payment,
reconciliation

Customer care, web-based self service

Cost recovery, audit, cost avoidance

Consulting solutions

Revenue cycle management

Analytical care management & workflow
solutions

Travel: back office processing,
customer care, on-line check-in
support

Transportation & Logistics:
administration, customer care,
marketing, consulting, advertising

Mortgage: imaging, processing,
administration

Financial: credit card applications &
customer care, lease administration
Communications & Consumer Goods
Healthcare Provider

Travel, Transportation & Logistics
Healthcare Payer & Insurance
Mortgage & Financial Services

15
A Powerful Combination
Market
Go To
Market
Acquisitions
Xerox
ACS
Combined
\$132B Document Technology Market

Leader: Hardware Revenue and
MPS
\$150B BPO Market and \$250B ITO

Market

BPO Leader, ITO significant
competence
\$500B+ Addressable Market

Leader in key segments

Enhanced capabilities
50% of Revenues generated from
customers outside U.S.
Xerox brand in top percentile
globally
Over 7,500 direct sales professionals
8% of Revenues from international
clients
43% of employees internationally
based
Significant global presence

Respected brand, sales
coverage and expert delivery

Technology

Innovation

Significant R&D resources, \$1.5B
combined with Fuji Xerox and
technology innovation heritage
Significant acquired proprietary
technology

Leverage Xerox IP to enable BPO
efficiencies and create new value

Business

Model

\$16B LTM Revenue
\$3.2B Services Revenue: majority MPS
70%+ Recurring Revenue
Solid expense reduction
Strong and consistent free cash flow
\$6.5B Services Revenue
Recurring Revenue: resilient to
economy
Solid top-line growth: 17% CAGR from
98
10%+ Operating Margin
Consistent cash flow
\$10B Services Revenue: >50% BPO
Stable recurring revenue
Accelerated growth opportunities
Improved operating margin
Strong annuity-driven cash flow

Significant incremental opportunity
Core competency: 90-plus since 1988
Disciplined: 10%+ Operating Margin
Services expansion by verticals
Disciplined approach centered on low
integration risk
Focused on distribution and BPO
verticals
Continued disciplined approach
Expanding BPO capabilities and
distribution

Non-GAAP Measures

17

Non-GAAP Financial Measures

Adjusted EPS :

we believe it will be necessary to adjust diluted earnings per share to exclude the effects of the following items: (1) the amortization of purchased intangible assets; (2) restructuring and asset impairment charges; and (3) acquisition related costs. Management believes that excluding the effects of these items will enable investors to better understand and analyze the impact of this transaction as well as results for a particular period as compared to prior periods. Management also expects to use this non-GAAP financial measure in its own evaluation of Xerox's performance, particularly when comparing performance to prior periods.

Free Cash Flow **Adjusted Free Cash Flow"**: To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software and certain additions to intangible assets. Management believes this measure provides investors an additional perspective on cash flows from operations in excess of amounts required for reinvestments. Free Cash Flow provides a measure of our ability to fund acquisitions, repay debt, pay dividends and repurchase shares. Additionally, we believe that it is helpful to adjust Free Cash Flow to exclude net payments made for the securities-related litigation matter. Management believes that excluding the effects of these payments helps investors better understand and analyze the current periods' results given the nature and size of the payments and their relation to prior period events. A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on slides 18, 19 and 20.

Adjusted Operating Margin :

Operating Margins to exclude restructuring and asset impairment charges, other expenses and a 2008 equipment write off. For ACS, we excluded the 2006 gain recognized on the sale of a business and the 2007 software impairment charge. Management believes that excluding the effects of these items helps investors better understand and analyze the results and provides a better measure of comparability given the discrete nature of these items to their respective periods. A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on slides 21 and 22.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, Xerox's reported results prepared in accordance with GAAP.

To better understand the trends in our business and the impact of this transaction post-acquisition,

To better understand the trends in Xerox's business, we believe that it is helpful to adjust

18
Pro Forma Adjusted Free Cash Flow Reconciliation
Free Cash Flow and Adjusted Free Cash Flow
Xerox
ACS
Pro-Forma
Combined
(in
millions)
Operating Cash Flow
1,076
\$
877
\$
1,953
\$
Capital expenditures

(155)
(320)
(475)
Internal use software
(125)
-
(125)
Additions to other intangible assets
-
(43)
(43)
Free Cash Flow
796
\$
514
\$
1,310
\$
Payments for securities litigation, net
643
-
643
Adjusted Free Cash Flow
1,439
\$
514
\$
1,953
\$
Year Ended June 30, 2009

19
Xerox Adjusted Free Cash Flow Reconciliation
Xerox Adjusted Free Cash Flow
2005
2006
2007
2008
(in millions)
Operating Cash Flow -
As Reported
1,420
\$
1,617
\$
1,871
\$
939

\$
 Payments for securities litigation, net
 -
 -
 -
 615
 Operating Cash Flow -
 As Adjusted
 1,420
 1,617
 1,871
 1,554
 Capital expenditures
 (181)
 (215)
 (236)
 (206)
 Internal use software
 (56)
 (79)
 (123)
 (129)
 Adjusted Free Cash Flow
 1,183
 \$
 1,323
 \$
 1,512
 \$
 1,219
 \$
 Total Revenues
 15,701
 \$
 15,895
 \$
 17,228
 \$
 17,608
 \$
 Operating Cash Flow % of Revenue
 9.0%
 10.2%
 10.9%
 5.3%
 Adjusted Free Cash Flow % of Revenue
 7.5%
 8.3%
 8.8%
 6.9%

Year Ended December 31,

20

ACS Adjusted Free Cash Flow Reconciliation

ACS Free Cash Flow

2006

2007

2008

2009

(in millions)

Operating Cash Flow

639

\$

738

\$

827

\$

877

\$

Capital expenditures

(395)

(317)

(268)

(320)

Additions to other intangible assets

(36)

(43)

(41)

(43)

Free Cash Flow

208

\$

378

\$

518

\$

514

\$

Total Revenues

5,354

\$

5,772

\$

6,161

\$

6,523

\$

Operating Cash Flow % of Revenue

11.9%

12.8%

13.4%

13.4%

Free Cash Flow % of Revenue

3.9%

6.6%

8.4%

7.9%

Year Ended June 30,

21
Xerox Adjusted Operating Margin Reconciliation
Year Ended
Xerox Adjusted Operating Margin
2005
2006
2007
2008
June 30, 2009
(in millions)
Income before Income Taxes and
Equity Income (Pre-Tax Income)
830
\$
808
\$
1,438
\$

(114)
 \$
 416
 \$
 Restructuring and asset impairment charges
 366
 385
 (6)
 429
 360
 Other expenses, net
 224
 336
 295
 1,122
 371
 Equipment write-off
 -
 -
 -
 39
 39
 Pre-Tax Income -
 As Adjusted
 1,420
 \$
 1,529
 \$
 1,727
 \$
 1,476
 \$
 1,186
 \$
 Total Revenues
 15,701
 \$
 15,895
 \$
 17,228
 \$
 17,608
 \$
 16,025
 \$
 Pre-Tax
 Income
 Margin
 -
 As

Reported

5.3%

5.1%

8.3%

(0.6%)

2.6%

Pre-Tax

Income

Margin

-

As

Adjusted

9.0%

9.6%

10.0%

8.4%

7.4%

Year Ended December 31,

22
ACS Adjusted Operating Margin Reconciliation
ACS Adjusted Operating Margin
2006
2007
(in millions)
Operating
Income
-
As
Reported
617
\$
537
\$
Gain on sale of business
(33)

-
Software impairment charge

-
76
Operating
Income

-
As
Adjusted
584

\$
613
\$
Total Revenues
5,354

\$
5,772
\$
Operating
Margin

-
As
Reported
11.5%
9.3%

Operating
Margin

-
As
Adjusted
10.9%
10.6%

Year Ended June 30,

23

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ACS urge investors and security holders to read the joint

proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information. You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge,

at the SEC's

Internet site (<http://www.sec.gov>). Copies of the joint proxy

statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy

statement/prospectus can also be obtained, when available, without charge, from Xerox's website, www.xerox.com, under the heading Investor Relations

and then under the heading SEC Filings. You may also obtain these documents, without

Xerox, ACS and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from

the respective stockholders of Xerox and ACS in favor of the

merger. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of

the respective stockholders of Xerox and ACS in connection with the proposed merger will be set forth in the joint proxy

statement/prospectus when it is filed with the SEC. You can find information about the Xerox's executive officers and

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Rule 425 Statement

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and then under the heading SEC Filings.

