

Edgar Filing: AFFILIATED COMPUTER SERVICES INC - Form 425

AFFILIATED COMPUTER SERVICES INC

Form 425

October 22, 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 Xerox and ACS will be submitted to the respective stockholders of Xerox and ACS for their consideration. In connection with the proposed merger, Xerox will file with the SEC a registration statement on Form S-4 that will include a joint proxy statement of Xerox and ACS that also constitutes a prospectus of Xerox. Xerox will mail the joint proxy statement/prospectus to its stockholders. **Xerox 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 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](http://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](http://www.acs-inc.com), under the tab "Investor Relations" and then under the heading "SEC Filings".

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 Xerox'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 Xerox 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's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Xerox 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.

The following slides were included in Xerox's third-quarter 2009 earnings presentation made on October 22, 2009.

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This presentation contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The

anticipate,  
believe,  
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will,  
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in  
the  
global  
economy;  
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; and

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 pro  
services; the risk that the future business operations of Affiliated Computer Services, Inc. ( ACS ) will not be successful; the  
customer retention and revenue expansion goals for the ACS transaction will not be met; the risk that disruptions from the ACS  
transaction will harm relationships with customers, employees and suppliers; and other factors that are set forth in the Risk Fa  
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  
quarter  
ended  
March  
31,  
2009  
and  
June  
30,  
2009  
and  
our

2008

Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update forward-looking statements as a result of new information or future events or developments, except as required by law.

Xerox 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 Xerox and ACS, without charge, at the Securities and Exchange Commission's (SEC) 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](http://www.xerox.com),

under

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heading

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SEC

Filings.

You

may

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documents,

without  
charge,  
from  
ACS's  
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[www.acs-inc.com](http://www.acs-inc.com),

under  
the  
tab

Investor  
Relations

and  
then  
under  
the

heading "SEC Filings". Information regarding participants or persons who may be deemed to be participants in the solicitation in respect of the proposed transaction is contained in Xerox's proxy statement for its most recent annual meeting and ACS's proxy statement

for  
its  
most  
recent  
annual  
meeting,  
both  
as  
filed  
with  
the  
SEC.

Forward-Looking Statements

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ACS Acquisition Update

Discussion points:

Why we're taking action now

How we planned for this transformative deal

Revenue and profit synergies

Strategic and financial profile

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A Strategic and Compelling Transaction

The acquisition of ACS is designed to deliver increased and sustainable shareholder and customer value

Builds on Xerox's strong financial base and drives value creation

Provides immediate scale and leadership in BPO

Increases already strong free cash flow

Strengthens annuity based business model

Leverages brand strength, global reach and technology expertise

Expands market opportunity

Enhances our growth prospects

Growth catalyst that secures Xerox a strong, competitive future



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A Global, Diversified Leader

Acquisition leverages the strengths of two best-in-class companies to create a new class of solutions provider

\$22 billion in revenue

\$17 billion of recurring revenue

Greatly expanded service capabilities

\$10 billion revenues from services

Nearly 50% of total revenue

Strong free cash flow will exceed \$2 billion a year or 8%+ of annual revenue

Double digit operating margins

Expands Xerox's addressable market four times to over \$500 billion, with an annual 5% growth rate

*Xerox will now have a critical mass of services, accounts, and sales to be a major player in the lucrative BPO market. The company has also fundamentally repositioned itself in the office document technology and services industry.*

InfoTrends, October 8, 2009

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Emerging Market Dynamics

Customers are seeking service providers that offer a full range of solutions

Large enterprises demand global capabilities and global account management

Lines are blurring between the document infrastructure and business processes

Industry is already consolidating

Traditional competitors are focusing more on services

Services competitors are leveraging scale

Mature market has made growth challenging in our traditional business

Future growth opportunity is driven more by services than core technology business

*"With ACS, Xerox becomes a formidable player in the business process segment of outsourcing services. The combination establishes a very strong player in transactional or operational BPO.*

Xerox

is

propelled

into

the

big

leagues

with

a

robust

network

of

offshore

facilities,

which

should

strengthen its services value proposition measurably.

Everest Research Institute, September 28, 2009

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Why Business Processing Outsourcing

BPO largely driven by document-driven work.

Value is in:

Automating labor intensive tasks through technology

More efficient manual work processes

A combination of both

Many industries still very dependent on documents

Health care, insurance, financial services, etc.

Largely annuity-based business

Long-term contracts provide recurring revenue

Strong, sustainable relevance and value proposition

BPO is always about improving productivity, reducing costs

Serves diverse markets, across verticals

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Taking Action Now

Xerox is the industry leader in key growth markets of our existing business

ACS is a best-in-class BPO enterprise

Diversified offerings with market leadership

Delivering

strong

profitable

growth:

6

percent

growth

in

fiscal

2009

New business signings of \$1 billion in annual recurring revenue

92% of revenue is U.S based; need to scale globally

Solid services expertise; need innovation to differentiate offerings

Scaling services differentiates Xerox in marketplace; adds value

to our

technology

Regardless of the strength of our existing business, without a company like ACS,

we will miss the opportunity to exploit the growth potential in this market as a

leading provider of integrated solutions.

"Our

net

assessment

is

this

is

another

bold

and

visionary

move  
by  
Xerox  
that  
holds  
much  
promise  
for  
the  
expanded  
company  
and  
its  
combined  
customers.  
Xerox's  
much  
larger  
size  
brings  
great  
resources for leverage in back-office management, global expansion and R&D.  
IDC, September 28, 2009

9

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#### The Planning Process

Began evaluating acquisition targets several years ago

ACS was considered from the outset

Initial focus was on small bolt-on

acquisitions in vertical markets

Rigorous review and analysis led us to believe the timing was right to pursue ACS

Best option to enhance the key pillars of Xerox's business

Prioritized objectives to include:

Expanding market and growth opportunities

Strong financial profile

Experienced management team to lead effective execution

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Complementary portfolio of offerings; compelling tangible, achievable synergies

Strong revenue growth potential

Scale

ACS

internationally

through

Xerox

brand

and

global

account

relationships

Account-by-account analysis of meaningful new business potential

Conservative assumptions on deal opportunities and closure rates

Cost synergies provide a solid financial return

Line-by-line review to identify specific cost reductions

Focus on corporate governance, services delivery, and infrastructure

Significant combined cash flow with additional cash benefits over first three years

Tangible and Achievable Synergies

*Xerox has had BPO aspirations for years. With this deal, ACS will bring savvy BPO marketing, packaging, pricing, deal pursuit and execution to the table, while Xerox's brand and global client reach should bring strength in the Asia/Pacific region and Europe, where ACS has not established inroads.*

Gartner Research, October 1, 2009

11  
11  
Annual Revenue  
Annual Pre-tax Profit  
Teams  
Synergies  
Year 1  
Year 3  
Year 5  
Year 1  
Year 3  
Year 5  
Services  
Sales



Leverage Xerox brand & combined relationships for N. America growth

--  
250  
530

--  
15  
60

Leverage Xerox global presence for ACS expansion

--  
115  
300

--  
5  
35

Leverage cash flow for continued BPO expansion

--  
325  
930

--  
40  
115

Innovation

Use Xerox technology to automate & differentiate

--  
75  
150

5  
30  
40

Corporate  
Governance

Consolidate public co. & governance structures

--  
--  
--

55  
55  
55

Delivery &  
Infrastructure

Reduce labor & shared BPO platform costs

--  
--  
--  
25

195

205

Leverage Xerox hardware & ACS services  
internally

--

--

--

15

60

90

Total Base Case

--

750+

1,900

100

375+

575+

Total Base Case + Upside

--

1,200

2,900

150

500+

800+

Revenue Synergies

Cost & Expense Synergies

\$250M+ in additional cash benefits over first 3 years

Breakout opportunities not included in Xerox's synergy cases

Note: Synergy savings exclude restructuring investments

Estimated Annual Synergies

Estimates assume a 12/31/09 close of the ACS transaction

12  
ACS + Xerox: Strong financial profile  
1.4  
3.7  
\$2.8  
\$3.9  
\$6.6  
\$10.5  
2009  
2.0  
2.3  
2.7

Total Debt / EBITDA  
 \$4.0  
 \$3.5  
 \$3.2  
 EBITDA  
 0.8  
 \$5.5  
 \$5.9  
 \$6.2  
 Finance Debt  
 0.6  
 \$2.4  
 \$7.9  
 2012  
 \$2.1  
 Core Debt  
 \$2.5  
 \$8.7  
 2010  
 0.6  
 Core Debt / EBITDA  
 \$8.0  
 Total Debt  
 (in billions)  
 2011  
 9%  
 11%  
 10  
 15%  
 10  
 12%  
 6  
 8%  
 Cash Flow from Ops /  
 Revenue  
 EPS Growth  
 Free Cash Flow / Revenue  
 Operating Margin  
 Revenue Growth  
 Capitalization  
 \$(0.3)  
 \$(0.3)  
 \$(0.3)  
 Dividend Payments  
 \$2.0  
 \$1.0  
 -  
 Available Cash  
 \$(0.1)  
 \$(0.8)

\$(1.8)

Debt Payments

\$(0.7)

\$(0.7)

\$(0.6)

CAPEX

\$3.1

\$2.8

\$2.6

Cash from Operations

2012

2011

2010

(in billions)

Cash Flow

Steady State Business Model

\$0.90 -

\$1.00

\$0.75 -

\$0.85

\$0.55 -

\$0.65

GAAP EPS

\$0.75 -

\$0.85

\$1.10 -

\$1.20

12%

\$25B

2012

\$24B

\$22B

Revenue

10%

2010

\$0.95 -

\$1.05

Adj. EPS

11%

Operating

Margin

2011

Income Statement

Adjustments include estimates for amortization of intangibles, restructuring and asset impairment costs and acquisition related costs

Above assumes a \$1B cash balance in all periods

Estimates assume a 12/31/09 close of the ACS transaction

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A Compelling Value Proposition

Combines the strengths of best-in-class companies, creates a new class of solutions provider

Provides customers with a broader suite of business solutions

Strengthens emphasis on cash generation and recurring revenue

Accelerates services-led strategy to provide greater scope, scale, and relevance as a global BPO competitor

Unites highly complementary organizations

Dedicated teams from each company are meeting and setting concrete priorities

Plans in place to realize specific synergies identified during due diligence process

Delivers increased and sustainable shareholder and customer value

*The acquisition will deepen Xerox's channels for managed print services (MPS), infuse R&D and innovation into ACS customers, and provide more standard offerings for ACS's business process outsourcing (BPO) offerings.*

Forrester Research, October 5, 2009