

Q3 2018 EARNINGS CONFERENCE CALL

MICHAEL HAYFORD, PRESIDENT & CEO
OWEN SULLIVAN, COO
ANDRE FERNANDEZ, EVP & CFO

October 30, 2018



NOTES TO INVESTORS

FORWARD-LOOKING STATEMENTS. Comments made during this conference call and in these materials contain forward-looking statements. Statements that describe or relate to NCR's plans, goals, intentions, strategies, or financial outlook, and statements that do not relate to historical or current fact, are examples of forward-looking statements. The forward-looking statements in these materials include statements about NCR's full year 2018 financial guidance and the expected type and magnitude of the non-operational adjustments included in any forward-looking non-GAAP measures; NCR's manufacturing network redesign, efforts to alleviate supply chain constraints and their expected benefits; NCR's ATM production rates and their expected impact on revenue; NCR's cloud revenue momentum; NCR's Mission One (M1) Services initiative and its expected benefits on NCR's services margin profile; expectations regarding ATM orders driving revenue in the fourth quarter of 2018; NCR's expected areas of focus to drive growth and create long-term stockholder value; completed and targeted mergers and acquisitions and their expected benefits; expectations for accelerating recurring revenue and predictability; NCR's cost savings program and its expected benefits in 2019 and the fourth quarter of 2018; share repurchase for dilution; and NCR's expected free cash flow generation and capital allocation strategy. Forward-looking statements are not guarantees of future performance, and there are a number of important factors that could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements, including those factors listed in Item 1a "Risk Factors" of NCR's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2018, and those factors detailed from time to time in NCR's other SEC reports. These materials are dated October 30, 2018, and NCR does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES. While NCR reports its results in accordance with generally accepted accounting principles in the United States (GAAP), comments made during this conference call and in these materials will include or make reference to certain "non-GAAP" measures, including: selected measures, such as period-over-period revenue growth, expressed on a constant currency basis, gross margin rate (non-GAAP), diluted earnings per share (non-GAAP), free cash flow (FCF), gross margin (non-GAAP), free cash flow as a percentage of non-GAAP net income (or free cash flow conversion rate), net debt, adjusted EBITDA, the ratio of net debt to adjusted EBITDA, operating expenses (non-GAAP), operating income (non-GAAP), interest and other expense (non-GAAP), income tax expense (non-GAAP), effective income tax rate (non-GAAP), and net income (non-GAAP). These measures are included to provide additional useful information regarding NCR's financial results, and are not a substitute for their comparable GAAP measures. Explanations of these non-GAAP measures, and reconciliations of these non-GAAP measures to their directly comparable GAAP measures, are included in the accompanying "Supplementary Materials" and are available on the Investor Relations page of NCR's website at www.ncr.com. Descriptions of many of these non-GAAP measures are also included in NCR's SEC reports.

USE OF CERTAIN TERMS. As used in these materials, (i) the term "recurring revenue" means the sum of cloud, hardware maintenance and software maintenance revenue, (ii) the term "net annual contract value" or "net ACV" for any particular period means NCR's net bookings for cloud revenue during the period, and is calculated as twelve months of expected subscription revenues under new cloud contracts during such period less twelve months of subscription revenues under cloud contracts that expired or were terminated during such period, adjusted for twelve months of expected pricing discounts or price increases from renewals of existing contracts, and (iii) the term "CC" means constant currency.

These presentation materials and the associated remarks made during this conference call are integrally related and are intended to be presented and understood together.

OVERVIEW

- **RECURRING REVENUE** up 2% including Cloud revenue up 6%
- Services continued **MARGIN EXPANSION**
- Executing **TARGETED M&A** strategy
- **ALLEVIATING** supply chain constraints
- Addressing **EXECUTION** challenges
- Announcing program to drive \$100m of **SAVINGS**

TOP PRIORITIES



Create long-term stockholder value

- Maintain focus on cost efficiencies
- Reallocate capital to highest growth opportunities
- Drive higher recurring revenue and better predictability
- Grow cash flow, share repurchase for dilution and targeted product M&A and selected partnerships
- Investor Day November 7th

EXECUTING TARGETED M&A STRATEGY

JETPAY



Monetize transactions via integrated POS and payment solution

ZIPSCENE



Provides behavioral analytics to enable data monetization

MANUFACTURING NETWORK REDESIGN PROGRESS



**New centrally
located
distribution
center to
maximize
supply chain
logistics flow**



**Contract
manufacturing
production
ramp**

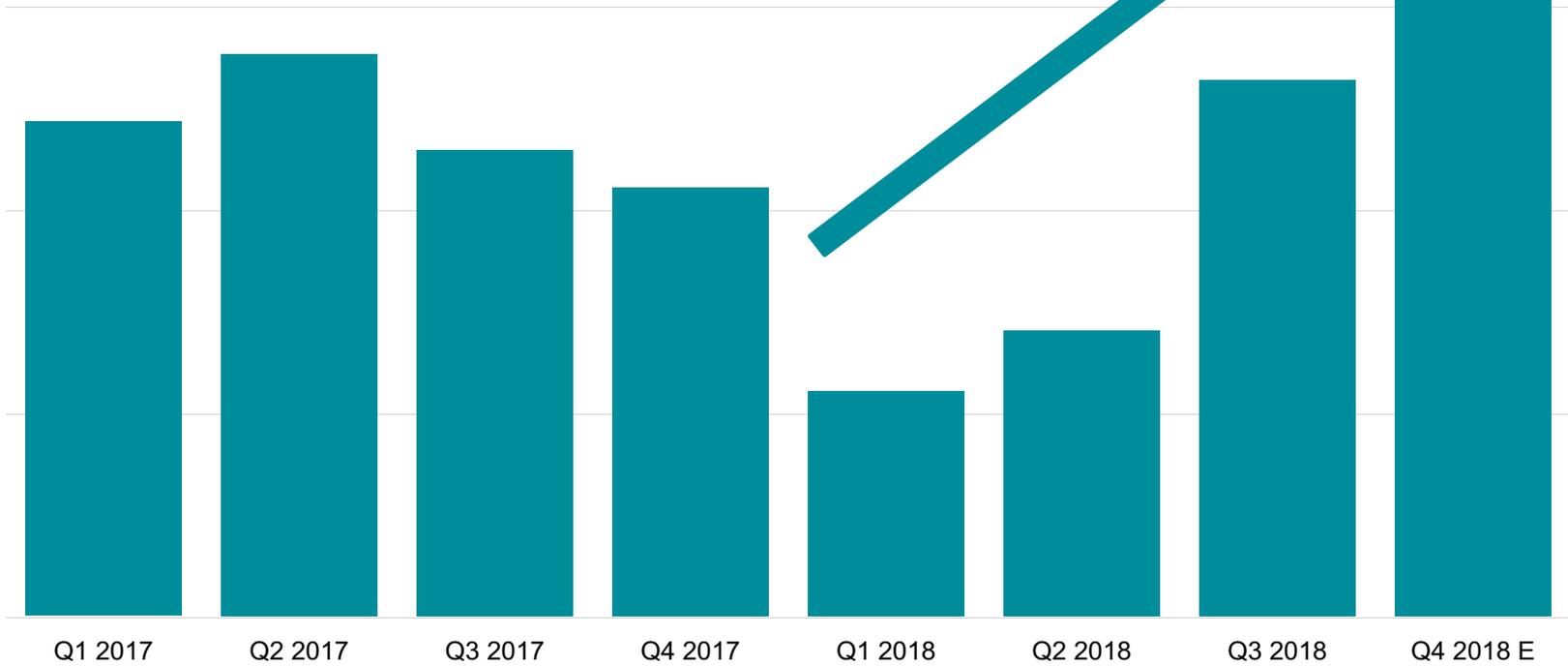


**Increasing
global
utilization
rates and
optimizing
supply chain
network**



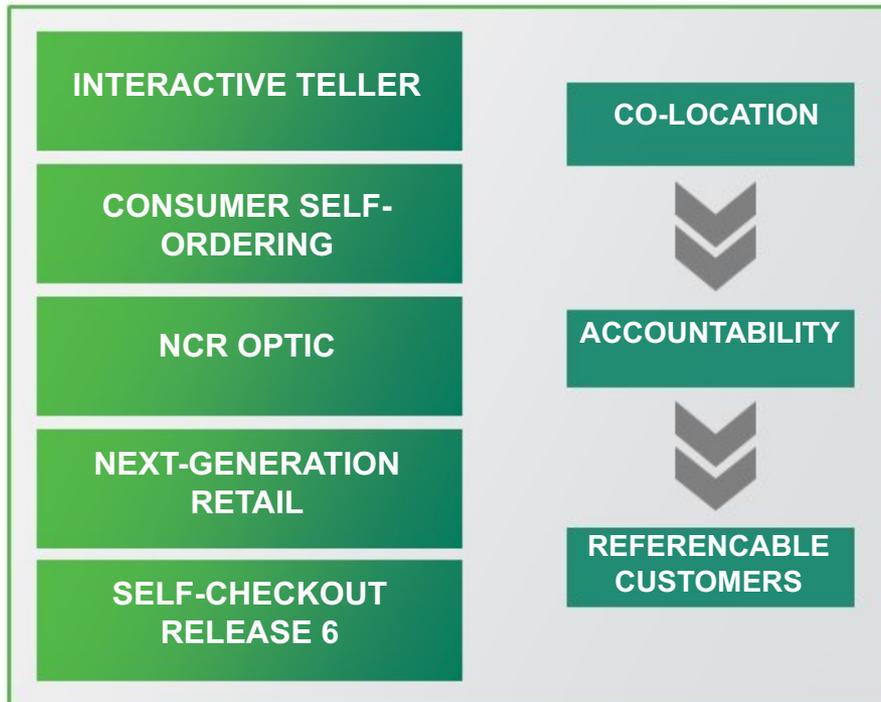
**Closed
manufacturing
plant in Beijing
with two
additional
facilities to
close by year-
end**

ATM PRODUCTION RAMPING



ACCELERATED CUSTOMER ACTIVATION TEAMS

Coming together to take care of our customers



FOCUS ON SPEND OPTIMIZATION

**Drive
Cost
Savings**

**Drive cost savings through
operational efficiencies**

- Create efficiencies in corporate functions
- Reduce spend in non-strategic areas
- Limit discretionary spend

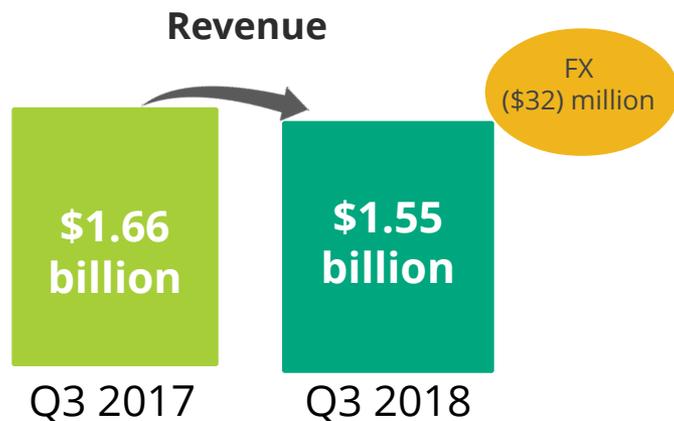
Generate at least \$100 million in savings in 2019

**Ongoing
Initiatives**

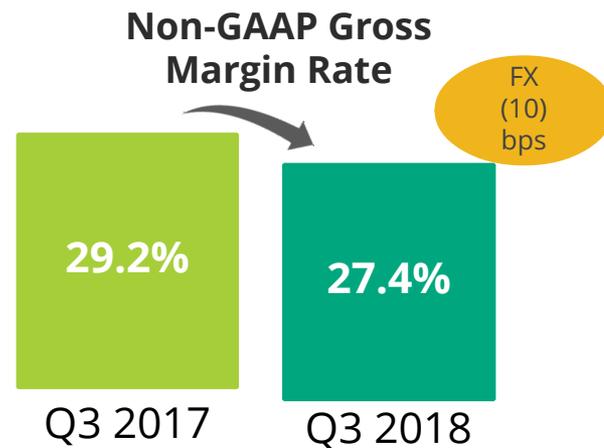
Manufacturing Network Redesign

Mission One Services Transformation

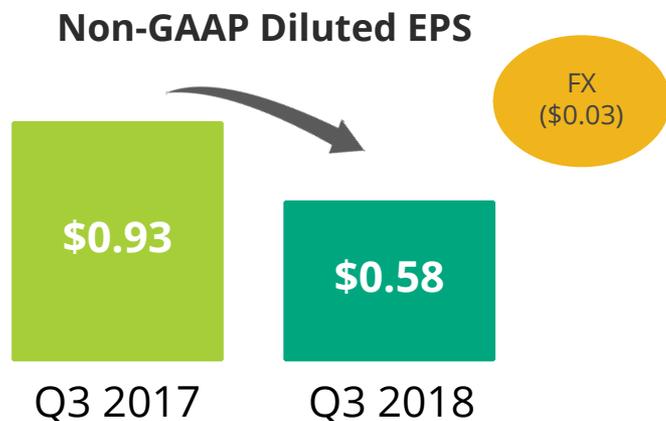
Q3 2018 FINANCIAL RESULTS



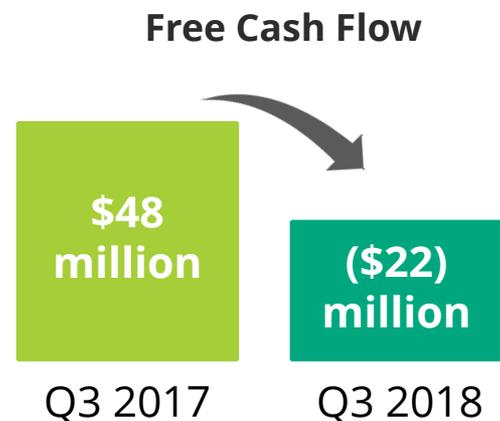
Revenue down 7% as reported and down 5% CC;
Recurring revenue up 2%, 48% of total revenue



Non-GAAP gross margin rate down 180 bps as reported and down 170 bps CC



Non-GAAP Diluted EPS down 38% as reported and down 36% CC



Free Cash Flow down due to lower earnings;
Improvements expected in Q4

SOFTWARE

Q3 2018 Update

	Q3 2018	Q3 2017	% Change	% Change Constant Currency
Software License	\$80	\$79	1%	3%
<i>Attached License</i>	26	32	(19)%	(15)%
<i>Unattached License</i>	54	47	15%	15%
Software Maintenance	92	95	(3)%	(2)%
Cloud	158	149	6%	6%
Professional Services	150	153	(2)%	—%
Software Revenue	\$480	\$476	1%	2%
Software Gross Margin	\$228	\$240	(5)%	(4)%
Software Gross Margin Rate	47.5%	50.4%	(290) bps	(280) bps
Operating Income	\$127	\$148	(14)%	(13)%
Operating Income as a % of Revenue	26.5%	31.1%	(460) bps	(460) bps

KEY HIGHLIGHTS

\$ in millions

- Cloud revenue up 6%; Net ACV of \$10M
- Software License up 3% constant currency with solid unattached software license growth, offset by lower attached software license revenue
- Operating income down driven by software license mix as well as higher employee related expenses

SERVICES

Q3 2018 Update

	Q3 2018	Q3 2017	% Change	% Change Constant Currency
Services Revenue	\$616	\$609	1%	4%
Services Gross Margin	\$165	\$159	4%	7%
Services Gross Margin Rate	26.8%	26.1%	+70 bps	+90 bps
Operating Income	\$90	\$88	2%	6%
Operating Income as a % of Revenue	14.6%	14.4%	+20 bps	+30 bps

\$ in millions

KEY HIGHLIGHTS

- Increase in revenue driven by hardware maintenance and implementation services as a result of continued momentum in managed service offerings and channel transformation trends
- Increased wallet share from the current install base driven by improved customer satisfaction
- Operating income increased due to sustainable improvements achieved through Mission One (M1) initiative offset by continued investment
- M1 initiative is a performance and profit improvement program focused on transforming NCR's services margin profile through: 1) productivity and efficiency improvements; 2) remote diagnostics and repair; 3) product life-cycle management; and 4) a higher mix of managed services

HARDWARE

Q3 2018 Update

	Q3 2018	Q3 2017	% Change	% Change Constant Currency
ATMs	\$237	\$273	(13)%	(10)%
Self-Checkout (SCO)	60	79	(24)%	(24)%
Point-of-Sale (POS)	157	221	(29)%	(28)%
Interactive Printer Solutions (IPS)	—	5	(100)%	(100)%
Hardware Revenue	\$454	\$578	(21)%	(20)%
Hardware Gross Margin	\$32	\$86	(63)%	(62)%
Hardware Gross Margin Rate	7.0%	14.9%	(790) bps	(780) bps
Operating Income	(\$56)	(\$2)	Unfav	Unfav
Operating Income as a % of Revenue	(12.3%)	(0.3%)	Unfav	Unfav

\$ in millions

KEY HIGHLIGHTS

- ATM revenue down due to supply chain constraints during the quarter but up 32% sequentially; ATM orders increased for the third consecutive quarter, which is expected to drive improved revenue performance in the fourth quarter
- SCO revenue down due to timing of customer roll-outs
- POS revenue down compared to growth of 18% constant currency in the prior year, which benefited from several large customer roll-outs
- Operating income decreased due to increased costs associated with improving supply chain constraints
- Manufacturing network redesign progressing as planned

FREE CASH FLOW, NET DEBT & EBITDA

Free Cash Flow	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Cash Provided by Operating Activities	\$68	\$136	\$163	\$270
Total capital expenditures	(78)	(79)	(234)	(206)
Cash used in Discontinued Operations	(12)	(9)	(23)	(14)
Free Cash Flow	(\$22)	\$48	(\$94)	\$50

\$ in millions

Net Debt & EBITDA	Q3 2018	Q3 2017
Debt	\$3,127	\$3,253
Cash	(334)	(405)
Net Debt	\$2,793	\$2,848
Adjusted EBITDA ⁽²⁾	\$984	\$1,129
Net Debt / Adjusted EBITDA	2.8x	2.5x

\$ in millions

⁽²⁾ Adjusted EBITDA for the trailing twelve-month period

2018 GUIDANCE

	Current FY 2018 Guidance	Previous FY 2018 Guidance
Revenue Growth	(1)% - (3)%	(1)% - (3)%
GAAP Diluted EPS ⁽¹⁾	\$0.10- \$0.68	\$0.07 - \$0.65
Non-GAAP Diluted EPS	\$2.55- \$2.75	\$2.55 - \$2.75
Free Cash Flow ⁽²⁾	\$250 - \$300 million	\$300 - \$350 million

⁽¹⁾ GAAP Diluted EPS FY 2018 guidance has increased from previous guidance due to the impact of U.S. Tax Reform and the spend optimization program. For all other GAAP to non-GAAP adjustments, refer to the reconciliations included in the supplemental materials.

⁽²⁾ Free cash flow guidance has decreased from previous guidance due to the higher working capital levels as we ramp production during the fourth quarter and the expected cash impact of the spend optimization program.

LOOKING FORWARD



Revenue growth; Focus on recurring revenue



Deliver on outstanding demand



Mix shift to software and services



Improve cost structure



Drive cash flow generation

SUPPLEMENTARY MATERIALS

Q3 2018 GAAP RESULTS

	Q3 2018	Q3 2017	% Change As Reported
Revenue	\$1,550	\$1,663	(7)%
Gross Margin	410	472	(13)%
Gross Margin Rate	26.5%	28.4%	
Operating Expenses	285	273	4%
% of Revenue	18.4%	16.4%	
Operating (Loss) Income	125	199	(37)%
% of Revenue	8.1%	12.0%	
Interest and other expense	(53)	(49)	8%
Income Tax (Benefit) Expense	(15)	31	(148)%
Effective Income Tax Rate	(21)%	21%	
Net Income	\$85	\$118	(28)%
Diluted EPS	\$0.57	\$0.77	(26)%

in millions, except per share amounts

Q3 2018 OPERATIONAL RESULTS

	Q3 2018	Q3 2017	% Change As Reported	% Change Constant Currency
Revenue	\$1,550	\$1,663	(7)%	(5)% ⁽¹⁾
Gross Margin (non-GAAP)	425	485	(12)%	(10)%
Gross Margin Rate (non-GAAP)	27.4%	29.2%	(180) bps	(170) bps
Operating Expenses (non-GAAP)	264	251	5%	7%
% of Revenue	17.0%	15.1%		
Operating Income (non-GAAP)	161	234	(31)%	(30)%
% of Revenue	10.4%	14.1%	(370) bps	(360) bps
Interest and other expense (non-GAAP)	(53)	(49)	8%	7%
Income Tax Expense (non-GAAP)	20	41	(51)%	
Effective Income Tax Rate (non-GAAP)	19%	22%		
Net Income (non-GAAP)	\$86	\$143	(40)%	(38)%
Diluted EPS (non-GAAP) ⁽²⁾	\$0.58	\$0.93	(38)%	(36)%

in millions, except per share amounts

⁽¹⁾ The impact of foreign currency was \$32 million unfavorable in Q3 2018.

⁽²⁾ Q3 2018 includes \$0.03 of foreign currency headwind on EPS. Diluted share count of 149.3 million in Q3 2018 and 153.1 million in Q3 2017.

NON-GAAP MEASURES

While NCR reports its results in accordance with generally accepted accounting principles (GAAP) in the United States, comments made during this conference call and in these materials will include non-GAAP measures. These measures are included to provide additional useful information regarding NCR's financial results, and are not a substitute for their comparable GAAP measures.

Operating Income (non-GAAP), Diluted EPS (non-GAAP), Gross Margin (non-GAAP), Gross Margin Rate (non-GAAP), Interest and Other expense (non-GAAP), Effective Income Tax Rate (non-GAAP), Net Income (non-GAAP), Operating Expenses (non-GAAP) and Income Tax Expense (non-GAAP). NCR's operating income (non-GAAP), diluted earnings per share (non-GAAP), gross margin (non-GAAP), gross margin rate (non-GAAP), interest and other expense (non-GAAP), effective income tax rate (non-GAAP), and net income (non-GAAP), operating expenses (non-GAAP) and income tax expense (non-GAAP) are determined by excluding pension mark-to-market adjustments, pension settlements, pension curtailments and pension special termination benefits and other special items, including amortization of acquisition related intangibles, from NCR's GAAP income (loss) from operations, earnings per share, gross margin, gross margin rate, interest and other expense, effective income tax rate, net income, operating expenses and income tax expense, respectively. Due to the non-operational nature of these pension and other special items, NCR's management uses these non-GAAP measures to evaluate year-over-year operating performance. NCR also uses operating income (non-GAAP) and non-GAAP diluted EPS, to manage and determine the effectiveness of its business managers and as a basis for incentive compensation. NCR believes these measures are useful for investors because they provide a more complete understanding of NCR's underlying operational performance, as well as consistency and comparability with NCR's past reports of financial results.

Free Cash Flow and Free Cash Flow as a Percentage of Non-GAAP Net Income (or Free Cash Flow Conversion Rate). NCR defines free cash flow as net cash provided by/used in operating activities and cash flow provided by/used in discontinued operations less capital expenditures for property, plant and equipment, additions to capitalized software, discretionary pension contributions and pension settlements. NCR's management uses free cash flow to assess the financial performance of the Company and believes it is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash generated after capital expenditures which can be used for, among other things, investment in the Company's existing businesses, strategic acquisitions, strengthening the Company's balance sheet, repurchase of Company stock and repayment of the Company's debt obligations. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other nondiscretionary expenditures that are not deducted from the measure. NCR also describes free cash flow as a percentage of non-GAAP net income (or free cash flow conversion rate), which is calculated as free cash flow divided by non-GAAP net income. NCR's management targets an annual free cash flow conversion rate at or above the range described in these materials because management believes that a conversion rate at or above that range represents the efficient conversion of non-GAAP net income to free cash flow for its business. Free cash flow and free cash flow conversion rate do not have uniform definitions under GAAP and, therefore, NCR's definitions may differ from other companies' definitions of these measures.

NON-GAAP MEASURES

Constant Currency. NCR presents certain financial measures, such as period-over-period revenue growth, on a constant currency basis, which excludes the effects of foreign currency translation by translating prior period results at current period monthly average exchange rates. Due to the overall variability of foreign exchange rates from period to period, NCR's management uses constant currency measures to evaluate period-over-period operating performance on a more consistent and comparable basis. NCR's management believes that presentation of financial measures without these results is more representative of the company's period-over-period operating performance, and provides additional insight into historical and/or future performance, which may be helpful for investors.

Net Debt and Adjusted EBITDA. NCR believes that Net Debt provides useful information to investors because NCR's management reviews Net Debt as part of its management of overall liquidity, financial flexibility, capital structure and leverage. In addition, certain debt rating agencies, creditors and credit analysts monitor NCR's Net Debt as part of their assessments of NCR's business. NCR determines Net Debt based on its total debt less cash and cash equivalents, with total debt being defined as total short-term borrowings plus total long-term debt.

NCR believes that Adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization) provides useful information to investors because it is an indicator of the strength and performance of the Company's ongoing business operations, including its ability to fund discretionary spending such as capital expenditures, strategic acquisitions and other investments. NCR determines Adjusted EBITDA for a given period based on its GAAP income (loss) from continuing operations plus interest expense, net; plus income tax expense (benefit); plus depreciation and amortization; plus other income (expense); plus pension expense (benefit); and plus special items. NCR believes that its ratio of net debt to Adjusted EBITDA provides useful information to investors because it is an indicator of the company's ability to meet its future financial obligations.

NCR believes that its ratio of Net Debt to Adjusted EBITDA provides useful information to investors because it is an indicator of the company's ability to meet its future financial obligations. In addition, the Net Debt to Adjusted EBITDA ratio is measures frequently used by investors and credit rating agencies. The Net Debt to Adjusted EBITDA ratio is calculated by dividing Net Debt by trailing twelve-month Adjusted EBITDA.

NCR management's definitions and calculations of these non-GAAP measures may differ from similarly-titled measures reported by other companies and cannot, therefore, be compared with similarly-titled measures of other companies. These non-GAAP measures should not be considered as substitutes for, or superior to, results determined in accordance with GAAP. These non-GAAP measures are reconciled to their corresponding GAAP measures in the following slides and elsewhere in these materials. These reconciliations and other information regarding these non-GAAP measures are also available on the Investor Relations page of NCR's website at www.ncr.com.

GAAP TO NON-GAAP RECONCILIATION

Net Income from Continuing Operations (GAAP) to Adjusted EBITDA (non-GAAP)

in millions	Q3 2018 LTM	Q3 2017 LTM
Net (Loss) Income from Continuing Operations (GAAP)	(\$34)	\$345
Pension Mark-to-Market Adjustments	28	85
Transformation/Restructuring Costs	101	29
Acquisition-Related Amortization of Intangibles	93	114
Acquisition-Related Costs	3	5
Asset Impairment Charges	183	—
Divestiture and Liquidation Losses	—	1
Net (Income) Loss from Continuing Operations Attributable to Noncontrolling Interests	—	(5)
Interest Expense	166	162
Interest Income	(3)	(4)
Depreciation and Amortization	239	226
Income Taxes	144	95
Stock Compensation Expense	64	76
Adjusted EBITDA (non-GAAP)	\$984	\$1,129

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 QTD

in millions (except per share amounts)	Q3 QTD 2018 GAAP	Transformation and Restructuring costs	Acquisition-related amortization of intangibles	Impact of U.S. Tax Reform	Q3 QTD 2018 non-GAAP
Product revenue	\$534	\$—	\$—	\$—	\$534
Service revenue	1,016	—	—	—	1,016
Total revenue	1,550	—	—	—	1,550
Cost of products	473	(8)	(3)	—	462
Cost of services	667	(1)	(3)	—	663
Gross margin	410	9	6	—	425
Gross margin rate	26.5%	0.5%	0.4%	—%	27.4%
Selling, general and administrative expenses	226	(6)	(14)	—	206
Research and development expenses	59	(1)	—	—	58
Total operating expenses	285	(7)	(14)	—	264
<i>Total operating expense as a % of revenue</i>	18.4%	(0.5)%	(0.9)%	—%	17.0%
Income from operations	125	16	20	—	161
<i>Income from operations as a % of revenue</i>	8.1%	1.0%	1.3%	—%	10.4%
Interest and Other (expense) income, net	(53)	—	—	—	(53)
Income from continuing operations before income taxes	72	16	20	—	108
Income tax (benefit) expense	(15)	(8)	5	38	20
<i>Effective income tax rate</i>	(21)%				19%
Income from continuing operations	87	24	15	(38)	88
Net income attributable to noncontrolling interests	2	—	—	—	2
Income from continuing operations (attributable to NCR)	\$85	\$24	\$15	(\$38)	\$86
Diluted earnings per share	\$0.57	\$0.16	\$0.10	(\$0.25)	\$0.58
Diluted shares outstanding	149.3				149.3

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 QTD

	Q3 QTD 2018 GAAP	Q3 QTD 2018 non-GAAP
in millions (except per share amounts)		
<i>Income from continuing operations attributable to NCR common stockholders:</i>		
Income from continuing operations (attributable to NCR)	\$85	\$86
Income from continuing operations attributable to NCR common stockholders	\$85	\$86
<i>Weighted average outstanding shares:</i>		
Weighted average diluted shares outstanding	120.9	120.9
Weighted as-if converted preferred shares	28.4	28.4
Total shares used in diluted earnings per share	149.3	149.3
Diluted earnings per share ⁽¹⁾	\$0.57	\$0.58

⁽¹⁾ GAAP EPS is determined using the most dilutive measure, either including the impact of the dividends on NCR's Series A Convertible Preferred Shares in the calculation of net income or loss available to common stockholders or including the impact of the conversion of such preferred stock into common stock in the calculation of the weighted average diluted shares outstanding. Non-GAAP EPS is always determined using the as-if converted preferred shares and shares that would be issued for stock compensation awards. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may be calculated using different methods, and may not mathematically reconcile.

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 QTD

in millions (except per share amounts)	Q3 QTD 2017 GAAP	Transformation Costs	Acquisition- related amortization of intangibles	Acquisition- related costs	Q3 QTD 2017 non-GAAP
Product revenue	\$657	\$—	\$—	\$—	\$657
Service revenue	1,006	—	—	—	1,006
Total revenue	1,663	—	—	—	1,663
Cost of products	528	—	(6)	—	522
Cost of services	663	(1)	(6)	—	656
Gross margin	472	1	12	—	485
Gross margin rate	28.4%	0.1%	0.7%	—%	29.2%
Selling, general and administrative expenses	220	(3)	(17)	(1)	199
Research and development expenses	53	(1)	—	—	52
Total expenses	273	(4)	(17)	(1)	251
<i>Total expense as a % of revenue</i>	<i>16.4%</i>	<i>(0.2)%</i>	<i>(1.0)%</i>	<i>(0.1)%</i>	<i>15.1%</i>
Income from operations	199	5	29	1	234
<i>Income from operations as a % of revenue</i>	<i>12.0%</i>	<i>0.3%</i>	<i>1.7%</i>	<i>0.1%</i>	<i>14.1%</i>
Interest and Other (expense) income, net	(49)	—	—	—	(49)
Income from continuing operations before income taxes	150	5	29	1	185
Income tax expense	31	1	9	—	41
<i>Effective income tax rate</i>	<i>21%</i>				<i>22%</i>
Income from continuing operations	119	4	20	1	144
Net income attributable to noncontrolling interests	1	—	—	—	1
Income from continuing operations (attributable to NCR)	\$118	\$4	\$20	\$1	\$143
Diluted (loss) earnings per share	\$0.77	\$0.02	\$0.13	\$0.01	\$0.93
Diluted shares outstanding	153.1				153.1

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 QTD

	Q3 QTD 2017 GAAP	Q3 QTD 2017 non-GAAP
in millions (except per share amounts)		
<i>Income from continuing operations attributable to NCR common stockholders:</i>		
Income from continuing operations (attributable to NCR)	\$118	\$143
Income from continuing operations attributable to NCR common stockholders	\$118	\$143
<i>Weighted average outstanding shares:</i>		
Weighted average diluted shares outstanding	126.2	126.2
Weighted as-if converted preferred shares	26.9	26.9
Total shares used in diluted earnings per share	153.1	153.1
Diluted earnings per share ⁽¹⁾	\$0.77	\$0.93

⁽¹⁾ GAAP EPS is determined using the most dilutive measure, either including the impact of the dividends on NCR's Series A Convertible Preferred Shares in the calculation of net income or loss available to common stockholders or including the impact of the conversion of such preferred stock into common stock in the calculation of the weighted average diluted shares outstanding. Non-GAAP EPS is always determined using the as-if converted preferred shares and shares that would be issued for stock compensation awards. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may be calculated using different methods, and may not mathematically reconcile.

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 YTD

in millions (except per share amounts)	Q3 2018 YTD GAAP	Transformation and Restructuring costs	Asset Impairment charges	Acquisition- related amortization of intangibles	Acquisition- related costs	Impact of U.S. Tax Reform	Q3 2018 YTD non-GAAP
Product revenue	\$1,585	\$—	\$—	\$—	\$—	\$—	\$1,585
Service revenue	3,019	—	—	—	—	—	3,019
Total revenue	4,604	—	—	—	—	—	4,604
Cost of products	1,344	(40)	—	(9)	—	—	1,295
Cost of services	2,027	(14)	—	(9)	—	—	2,004
Gross margin	1,233	54	—	18	—	—	1,305
Gross margin rate	26.8%	1.1%	—%	0.4%	—%	—%	28.3%
Selling, general and administrative expenses	732	(38)	—	(46)	(1)	—	647
Research and development expenses	190	(6)	—	—	—	—	184
Asset impairment charges	183	—	(183)	—	—	—	—
Total expenses	1,105	(44)	(183)	(46)	(1)	—	831
<i>Total expense as a % of revenue</i>	24.0%	(0.9)%	(4.0)%	(1.0)%	—%	—%	18.0%
Income from operations	128	98	183	64	1	—	474
<i>Income from operations as a % of revenue</i>	2.8%	2.1%	4.0%	1.4%	—%	—%	10.3%
Interest and Other (expense) income, net	(149)	—	—	—	—	—	(149)
Income from continuing operations before income taxes	(21)	98	183	64	1	—	325
Income tax expense	(20)	12	8	14	—	40	54
<i>Effective income tax rate</i>	95%						17%
Income from continuing operations	(1)	86	175	50	1	(40)	271
Net income attributable to noncontrolling interests	2	—	1	—	—	—	3
Income from continuing operations (attributable to NCR)	(\$3)	\$86	\$174	\$50	\$1	(\$40)	\$268
Diluted earnings per share	(\$0.33)	\$0.57	\$1.16	\$0.33	\$0.01	(\$0.27)	\$1.78
Diluted Shares outstanding	118.4						150.2

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 YTD

	Q3 2018 YTD GAAP	Q3 2018 YTD non-GAAP
in millions (except per share amounts)		
<i>Income from continuing operations attributable to NCR common stockholders:</i>		
Income from continuing operations (attributable to NCR)	\$(3)	\$268
Dividends on convertible preferred shares	(36)	—
Income from continuing operations attributable to NCR common stockholders	\$(39)	\$268
<i>Weighted average outstanding shares:</i>		
Weighted average diluted shares outstanding	118.4	122.1
Weighted as-if converted preferred shares	—	28.1
Total shares used in diluted earnings per share	118.4	150.2
Diluted earnings per share ⁽¹⁾	(\$0.33)	\$1.78

⁽¹⁾ GAAP EPS is determined using the most dilutive measure, either including the impact of the dividends on NCR's Series A Convertible Preferred Shares in the calculation of net income or loss available to common stockholders or including the impact of the conversion of such preferred stock into common stock in the calculation of the weighted average diluted shares outstanding. Non-GAAP EPS is always determined using the as-if converted preferred shares and shares that would be issued for stock compensation awards. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may be calculated using different methods, and may not mathematically reconcile.

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 YTD

in millions (except per share amounts)	Q3 2017 YTD GAAP	Transformation costs	Acquisition- related amortization of intangibles	Acquisition- related costs	Q3 2017 YTD non-GAAP
Product revenue	\$1,829	\$—	\$—	\$—	\$1,829
Service revenue	2,905	—	—	—	2,905
Total revenue	4,734	—	—	—	4,734
Cost of products	1,430	(2)	(19)	—	1,409
Cost of services	1,959	(9)	(18)	—	1,932
Gross margin	1,345	11	37	—	1,393
Gross margin rate	28.4%	0.3%	0.8%	—%	29.4%
Selling, general and administrative expenses	678	(10)	(49)	(3)	616
Research and development expenses	178	(5)	—	—	173
Total expenses	856	(15)	(49)	(3)	789
<i>Total expense as a % of revenue</i>	18.1%	(0.3)%	(1.0)%	(0.1)%	16.7%
Income from operations	489	26	86	3	604
<i>Income from operations as a % of revenue</i>	10.3%	0.5%	1.8%	0.1%	12.8%
Interest and Other (expense) income, net	(138)	—	—	—	(138)
Income from continuing operations before income taxes	351	26	86	3	466
Income tax expense	78	7	27	1	113
<i>Effective income tax rate</i>	22%				24%
Income from continuing operations	273	19	59	2	353
Net income attributable to noncontrolling interests	1	—	—	—	1
Income from continuing operations (attributable to NCR)	\$272	\$19	\$59	\$2	\$352
Diluted earnings per share	\$1.37	\$0.12	\$0.38	\$0.01	\$2.28
Diluted Shares outstanding	126.9				154.2

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 YTD

	Q3 2017 YTD GAAP	Q3 2017 YTD non-GAAP
in millions (except per share amounts)		
<i>Income from continuing operations attributable to NCR common stockholders:</i>		
Income from continuing operations (attributable to NCR)	\$272	\$352
Dividends on convertible preferred shares	(36)	—
Deemed dividend on modification of convertible preferred shares	(4)	—
Deemed dividend on convertible preferred shares related to redemption value accretion	(58)	—
Income from continuing operations attributable to NCR common stockholders	\$174	\$352
<i>Weighted average outstanding shares:</i>		
Weighted average diluted shares outstanding	126.9	126.9
Weighted as-if converted preferred shares	—	27.3
Total shares used in diluted earnings per share	126.9	154.2
Diluted earnings per share ⁽¹⁾	\$1.37	\$2.28

⁽¹⁾ GAAP EPS is determined using the most dilutive measure, either including the impact of the dividends on NCR's Series A Convertible Preferred Shares in the calculation of net income or loss available to common stockholders or including the impact of the conversion of such preferred stock into common stock in the calculation of the weighted average diluted shares outstanding. Non-GAAP EPS is always determined using the as-if converted preferred shares and shares that would be issued for stock compensation awards. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may be calculated using different methods, and may not mathematically reconcile.

GAAP TO NON-GAAP RECONCILIATION

FY 2017

in millions (except per share amounts)	FY 2017 GAAP	Transformation Costs	Acquisition- related amortization of intangibles	Acquisition- related costs	Pension mark- to-market adjustments	Impact of U.S. Tax Reform	FY 2017 non-GAAP
Product revenue	\$2,579	\$—	\$—	\$—	\$—	\$—	\$2,579
Service revenue	3,937	—	—	—	—	—	3,937
Total revenue	6,516	—	—	—	—	—	6,516
Cost of products	2,021	(2)	(25)	—	—	—	1,994
Cost of services	2,639	(9)	(25)	—	—	—	2,605
Gross margin	1,856	11	50	—	—	—	1,917
Gross margin rate	28.5%	0.1%	0.8%	—%	—%	—%	29.4%
Selling, general and administrative expenses	923	(14)	(65)	(5)	—	—	839
Research and development expenses	242	(4)	—	—	—	—	238
Total expenses	1,165	(18)	(65)	(5)	—	—	1,077
<i>Total expense as a % of revenue</i>	<i>17.9%</i>	<i>(0.3)%</i>	<i>(1.0)%</i>	<i>(0.1)%</i>	<i>—%</i>	<i>—%</i>	<i>16.5%</i>
Income from operations	691	29	115	5	—	—	840
<i>Income from operations as a % of revenue</i>	<i>10.6%</i>	<i>0.4%</i>	<i>1.8%</i>	<i>0.1%</i>	<i>—%</i>	<i>—%</i>	<i>12.9%</i>
Interest and Other (expense) income, net	(209)	—	—	—	28	—	(181)
Income from continuing operations before income taxes	482	29	115	5	28	—	659
Income tax expense (benefit)	242	9	36	2	3	(130)	162
<i>Effective income tax rate</i>	<i>50%</i>						<i>25%</i>
Income from continuing operations	240	20	79	3	25	130	497
Net income attributable to noncontrolling interests	3	—	—	—	—	—	3
Income from continuing operations (attributable to NCR)	\$237	\$20	\$79	\$3	\$25	\$130	\$494
Diluted earnings per share	\$1.01	\$0.13	\$0.51	\$0.02	\$0.16	\$0.84	\$3.20
Diluted Shares outstanding	127.0						154.3

GAAP TO NON-GAAP RECONCILIATION

FY 2017

	FY 2017 GAAP	FY 2017 non-GAAP
in millions (except per share amounts)		
<i>Income from continuing operations attributable to NCR common stockholders:</i>		
Income from continuing operations (attributable to NCR)	\$237	\$494
Dividends on convertible preferred shares	(47)	—
Deemed dividend on modification of convertible preferred shares	(4)	—
Deemed dividend on convertible preferred shares related to redemption value accretion	(58)	—
Income from continuing operations attributable to NCR common stockholders	\$128	\$494
<i>Weighted average outstanding shares:</i>		
Weighted average diluted shares outstanding	127.0	127.0
Weighted as-if converted preferred shares	—	27.3
Total shares used in diluted earnings per share	127.0	154.3
Diluted earnings per share ⁽¹⁾	\$1.01	\$3.20

⁽¹⁾ GAAP EPS is determined using the most dilutive measure, either including the impact of the dividends on NCR's Series A Convertible Preferred Shares in the calculation of net income or loss available to common stockholders or including the impact of the conversion of such preferred stock into common stock in the calculation of the weighted average diluted shares outstanding. Non-GAAP EPS is always determined using the as-if converted preferred shares and shares that would be issued for stock compensation awards. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may be calculated using different methods, and may not mathematically reconcile.

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 QTD

Gross Margin and Gross Margin Rate (non-GAAP) to Gross Margin and Gross Margin Rate (GAAP)

	Q3 2018 QTD	
	Gross Margin	Gross Margin Rate %
Software	228	47.5%
Services	165	26.8%
Hardware	32	7.0%
Total Gross Margin (non-GAAP)	425	27.4%
Less:		
Transformation Costs	9	0.5%
Acquisition-related amortization of intangibles	6	0.4%
Total Gross Margin (GAAP)	410	26.5%

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 QTD

Gross Margin and Gross Margin Rate (non-GAAP) to Gross Margin and Gross Margin Rate (GAAP)

	Q3 2017 QTD	
	Gross Margin	Gross Margin Rate %
Software	240	50.4%
Services	159	26.1%
Hardware	86	14.9%
Total Gross Margin (non-GAAP)	485	29.2%
Less:		
Transformation Costs	1	0.1%
Acquisition-related amortization of intangibles	12	0.7%
Total Gross Margin (GAAP)	472	28.4%

GAAP TO NON-GAAP RECONCILIATION

Q3 2018 QTD

Operating Income and Operating Income Rate (non-GAAP) to
Operating Income and Operating Income Rate (GAAP)

	Q3 2018 QTD	
	Operating Income	Operating Income Rate
Software	127	26.5%
Services	90	14.6%
Hardware	(56)	(12.3)%
Total Operating Income (non-GAAP)	161	10.4%
Less:		
Transformation & Restructuring costs	16	1.0%
Acquisition-related amortization of intangibles	20	1.3%
Total Operating Income (GAAP)	125	8.1%

GAAP TO NON-GAAP RECONCILIATION

Q3 2017 QTD

Operating Income and Operating Income Rate (non-GAAP) to
Operating Income and Operating Income Rate (GAAP)

	Q3 2017 QTD	
	Operating Income	Operating Income Rate
Software	148	31.1%
Services	88	14.4%
Hardware	(2)	(0.3)%
Total Operating Income (non-GAAP)	234	14.1%
Less:		
Transformation Costs	5	0.3%
Acquisition-related amortization of intangibles	29	1.7%
Acquisition-related costs	1	0.1%
Total Operating Income (GAAP)	199	12.0%

GAAP TO NON-GAAP RECONCILIATION

Revenue Growth % (GAAP) to Revenue Growth Constant Currency % (non-GAAP)

	Q3 2018 QTD		
	Revenue Growth % (GAAP)	Favorable (unfavorable) FX impact	Revenue Growth Constant Currency % (non-GAAP)
Software License	1%	(2)%	3%
<i>Attached License</i>	(19)%	(4)%	(15)%
<i>Unattached License</i>	15%	—%	15%
Software Maintenance	(3)%	(1)%	(2)%
Cloud	6%	—%	6%
Professional Services	(2)%	(2)%	—%
Software	1%	(1)%	2%
Services	1%	(3)%	4%
ATMs	(13)%	(3)%	(10)%
Self-Checkout (SCO)	(24)%	—%	(24)%
Point-of-Sale (POS)	(29)%	(1)%	(28)%
Interactive Printer Solutions (IPS)	(100)%	—%	(100)%
Hardware	(21)%	(1)%	(20)%
Total Revenue	(7)%	(2)%	(5)%

GAAP TO NON-GAAP RECONCILIATION

Gross Margin Growth % (GAAP) to Gross Margin Growth % on a Constant Currency Basis (non-GAAP)

	Q3 2018 QTD		
	Gross Margin Growth % Reported	Favorable (unfavorable) FX impact	Constant Currency Gross Margin Growth % (non-GAAP)
Software	(5)%	(1)%	(4)%
Services	4%	(3)%	7%
Hardware	(63)%	(1)%	(62)%
Total Gross Margin	(12)%	(2)%	(10)%

GAAP TO NON-GAAP RECONCILIATION

Operating Income Growth % (GAAP) to Operating Income Growth % on a Constant Currency Basis (non-GAAP)

	Q3 2018 QTD		
	Operating Income Growth % Reported	Favorable (unfavorable) FX impact	Constant Currency Operating Income Growth % (non-GAAP)
Software	(14)%	(1)%	(13)%
Services	2%	(4)%	6%
Hardware	(2,700)%	578%	(2,122)%
Total Operating Income	(31)%	(1)%	(30)%

GAAP TO NON-GAAP RECONCILIATION

Gross Margin Growth bps (GAAP) to Gross Margin Growth bps on a Constant Currency Basis (non-GAAP)

	Q3 2018 QTD		
	Gross Margin bps Growth Reported	Favorable (unfavorable) FX impact	Constant Currency Gross Margin bps Growth (non- GAAP)
Software	(290) bps	(10) bps	(280) bps
Services	70 bps	(20) bps	90 bps
Hardware	(790) bps	(10) bps	(780) bps
Total Gross Margin bps	(180) bps	(10) bps	(170) bps

GAAP TO NON-GAAP RECONCILIATION

Operating Income Growth bps (GAAP) to Operating Income Growth bps on a Constant Currency Basis (non-GAAP)

	Q3 2018 QTD		
	Operating Income bps Growth Reported	Favorable (unfavorable) FX impact	Constant Currency Operating Income bps Growth (non- GAAP)
Software	(460) bps	0 bps	(460) bps
Services	20 bps	(10) bps	30 bps
Hardware	(1,200) bps	(10) bps	(1,190) bps
Total Operating Income	(370) bps	(10) bps	(360) bps

GAAP TO NON-GAAP RECONCILIATION

Diluted Earnings per Share

	Current 2018 Guidance	Prior 2018 Guidance
Diluted EPS (GAAP) ^{(1) (2)}	\$0.10- \$0.68	\$0.07 - \$0.65
Transformation & Restructuring costs	0.75 - 1.00	0.50 - 0.75
Asset impairment charges	1.16	1.16
Impact of U.S. Tax Reform	(0.27)	—
Acquisition-Related Amortization of Intangibles	0.42	0.42
Acquisition-Related Costs	0.05	0.05
Non-GAAP Diluted EPS ^{(1) (3)}	\$2.55- \$2.75	\$2.55 - \$2.75

⁽¹⁾ Non-GAAP diluted EPS is determined using the conversion of the Series A Convertible Preferred Stock into common stock in the calculation of weighted average diluted shares outstanding. GAAP EPS is determined using the most dilutive measure, either including the impact of dividends or deemed dividends on the Company's Series A Convertible Preferred Stock in the calculation of net income or loss available to common stockholders or including the impact of the conversion of the Series A Convertible Preferred Stock into common stock in the calculation of the weighted average diluted shares outstanding. Therefore, GAAP diluted EPS and non-GAAP diluted EPS may not mathematically reconcile.

⁽²⁾ Except for the adjustments noted herein, this guidance does not include the effects of any future acquisitions/divestitures, pension mark-to-market adjustments, taxes or other events, which are difficult to predict and which may or may not be significant. We have increased our GAAP Diluted EPS FY 2018 guidance from previous guidance due to the impact of U.S. Tax Reform and the spend optimization program.

⁽³⁾ For FY 2018, we have assumed OIE of approximately \$205 million, an effective tax rate of 21% and a share count of 151 million compared to OIE of \$181 million, an effective tax rate of 25% and a share count of 154 million in FY 2017.

GAAP TO NON-GAAP RECONCILIATION

Free Cash Flow	Current 2018 Guidance	Prior 2018 Guidance
Cash Provided by Operating Activities ⁽¹⁾	\$640 - \$670	\$690 - \$720
Total capital expenditures	(330) - (350)	(330) - (350)
Cash used in Discontinued Operations	(40)	(40)
Free Cash Flow ⁽¹⁾	\$250 - \$300	\$300 - \$350

\$ in millions

(1) Net cash provided by operating activities and free cash flow guidance decreased from previous guidance due to the higher working capital levels as we ramp production during the fourth quarter and the expected cash impact of the spend optimization program.

