

# **4Q05 Earnings Supplemental Information**

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January 24, 2006



# Safe Harbor Statement

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The contents of this presentation that are not statements of historical fact are forward-looking statements and involve risks and uncertainties that are discussed in the Safe Harbor section of our earnings releases and SEC filings. Actual results may differ materially from such statements. Lexmark undertakes no obligation to update any forward-looking statements.

# 4th Quarter Results

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- Revenue was in line with the company's expectations but at the low-end of its range. EPS exceeded its expectations. Both revenue and EPS were significantly lower than a year ago.
  - Compared to 4Q04, total revenue of \$1.365 billion was down 12%
    - Laser and inkjet printer revenue was down 25%
      - Laser units down 7%, Inkjet units down 8%
    - Laser and inkjet supplies revenue was down 1%
    - Business segment revenue of \$693.1million was down 12%
    - Consumer segment revenue of \$672.2 million was down 11%
    - U.S. revenue declined 13%, EMEA revenue declined 13%, and other international revenue declined 6%
  - Gross profit margin was 28.3% versus 32.0% in 4Q04, down principally due to lower product margins
  - Operating expense to revenue ratio was 20.0% versus 19.2% last year as a decline in revenue outpaced a reduction in operating expenses
  - Operating income margin was 8.3% compared to 12.8% last year
  - Effective tax rate in 4Q of 30.4% versus previously expected tax rate of 25.6% due mainly to a change in estimated non-U.S. tax credits.
  - EPS of \$0.71 were down \$0.47 compared to \$1.18 last year
    - EPS exceeded the company's expectations due to lower than anticipated operating expenses, and lower than expected sales of inkjet units

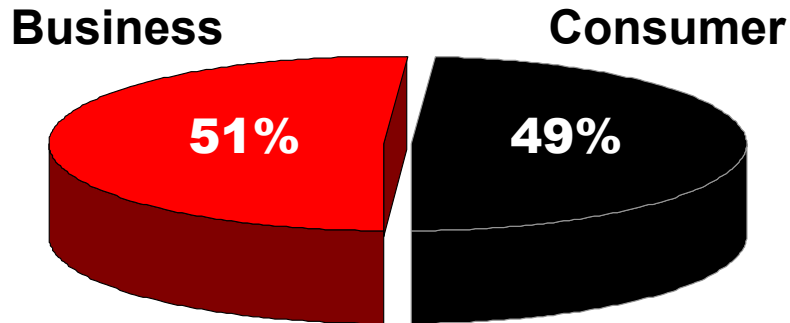
# 4th Quarter Results

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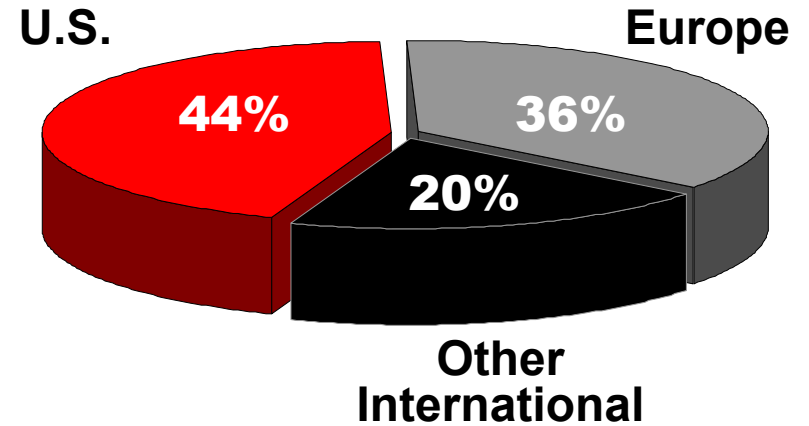
- **4Q cash generation strong at \$213 million in the quarter, \$567 million for 2005**
  - Cash and marketable securities of \$889 million as of Dec. 31, 2005
- **Company repurchased \$200 million of its stock in the 4<sup>th</sup> quarter, \$1.070 billion in 2006**
  - Board of directors approved an additional \$1.0 billion in share repurchase authorization on January 20, 2006
- **Capital expenditures in 4Q of \$48 million, \$201 million in 2005**
  - Depreciation of \$48 million in 4Q, \$159 million in 2005
  - 2006 capital expenditures and depreciation projected to be \$230 million and \$160 million, respectively
- **Company announced it is taking actions to improve its cost and expense structure**
  - Implementing a more rigorous process to improve lifetime profitability and payback of inkjet sales. This is expected to result in a higher mix of AIO's, stand alone sales, and more profitable sales channels
  - Restructuring which it expects to cost \$130 million and generate pre-tax annual savings of \$80 million (70% cost / 30% expense), and 2006 savings of \$50 million.
  - Operating income margin objective of 8% - 10% including the impact of FAS123R expense (pre-tax 2006 impact of \$36 million).

# Revenue

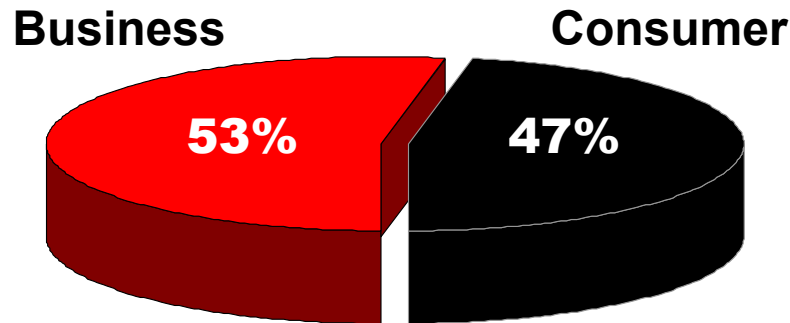
4Q by Segment



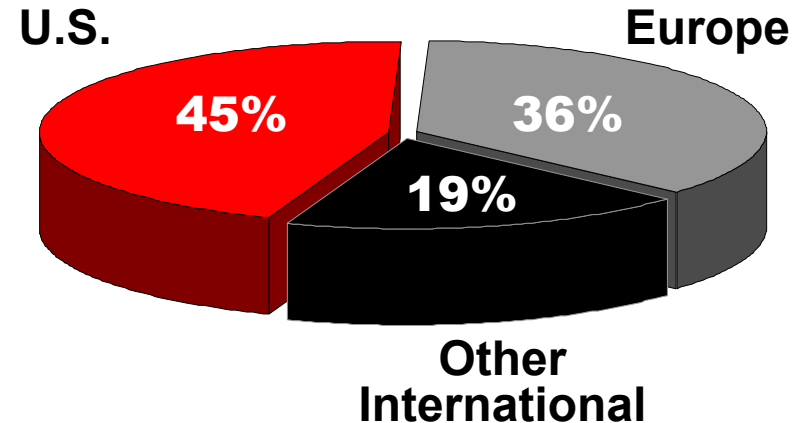
4Q by Region



2005 by Segment



2005 by Region



# Results

## Revenue by Geography

<u>(Dollars in millions)</u>	Three Months Ended December 31			Twelve Months Ended December 31		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
United States	\$ 595.8	\$ 682.7	-13%	\$ 2,360.5	\$ 2,397.8	-2%
Europe	493.5	566.9	-13%	1,853.8	1,926.3	-4%
Other international	276.0	294.3	-6%	1,007.2	989.7	2%
<u>Total revenue</u>	<u>\$ 1,365.3</u>	<u>\$ 1,543.9</u>	<u>-12%</u>	<u>\$ 5,221.5</u>	<u>\$ 5,313.8</u>	<u>-2%</u>

## Segment Revenue

<u>(Dollars in millions)</u>	Three Months Ended December 31			Twelve Months Ended December 31		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Business	\$ 693.1	\$ 784.9	-12%	\$ 2,774.8	\$ 2,816.6	-1%
Consumer	672.2	759.0	-11%	2,446.7	2,497.2	-2%
<u>Total revenue</u>	<u>\$ 1,365.3</u>	<u>\$ 1,543.9</u>	<u>-12%</u>	<u>\$ 5,221.5</u>	<u>\$ 5,313.8</u>	<u>-2%</u>

## Segment Operating Income

<u>(Dollars in millions)</u>	Three Months Ended December 31			Twelve Months Ended December 31		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Business	\$ 157.5	\$ 206.2	-24%	\$ 661.0	\$ 752.2	-12%
Consumer	43.3	85.6	-49%	232.1	333.2	-30%
Other	(87.0)	(95.0)	8%	(359.4)	(353.3)	-2%
<u>Total operating income (loss)</u>	<u>\$ 113.8</u>	<u>\$ 196.8</u>	<u>-42%</u>	<u>\$ 533.7</u>	<u>\$ 732.1</u>	<u>-27%</u>

# Unit Trends, Revenue by Product

## Unit Trends

<i>(Millions)</i>	2003	2004	2005
Laser Units	1.3	1.7	2.0
Inkjet Units	15.2	18.3	18.4

## Revenue by Product

<i>(Dollars in millions)</i>	2005	2004	% Change
Laser & Inkjet Printers	\$ 1,799.4	\$ 2,000.1	-10%
Laser & Inkjet Supplies	3,117.2	2,974.8	5%
Other	304.9	338.9	-10%
Total Revenue	\$ 5,221.5	\$ 5,318.8	-2%

# New Office AIO's Strengthen Lexmark's Position in SOHO

## Lexmark X8350 Office All-in-One Plus Photo:

- Print directly from memory cards or USB Flash drive
- Easily preview and edit photos using the 2.4" color LCD
- Enhance photos with cropping, red eye removal and color fix

## Both the Lexmark X7350 Office All-in-One and the Lexmark X8350 Office All-in-One Plus Photo offer:

- Print up to up to 25 ppm black and up to 19 ppm color
- Copy: Photo, black and white or color copies without a PC
- Scan to email or print: 48-bit flatbed color scanner to easily scan documents or photos
- Scan multiple documents from your printer and create PDF files or convert to editable text
- Photo capability with PC-free printing from PictBridge direct connection cameras
- Easily enhance, print and manage your digital photos using Lexmark Fast Pics
- Up to 50-sheet automatic document feeder for hands free fax, scan or copy
- Network capability, with optional Ethernet and Wireless network adapters



X8350



X7350

# Outlook

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**In the 1st quarter of 2006, the company expects:**

- **Revenue to be down in the high-single to low-double digit range year-over-year**
- **EPS of \$0.60 - \$0.70:**
  - **Excluding approximately \$0.33 of restructuring charges**
  - **Excluding an estimated \$0.06 pension curtailment gain**
  - **Including approximately \$0.06 cents of FAS123R options expense**
  - **GAAP EPS are expected to be \$0.33 - \$0.43, GAAP EPS were \$0.96 in the 1st quarter of 2005**
  - **Full year 2006 FAS123R impact expected to be \$36 million pretax**
- **Gross margins, excluding restructuring actions, to be slightly lower year over year, but higher sequentially**
- **Operating expense to revenue ratio, excluding restructuring actions, to be up year over year, and up sequentially**
- **Operating income margin, excluding restructuring actions, to be lower year over year, and sequentially about flat**
- **The effective tax rate in 1Q06 and for the full-year 2006 is expected to be 29.0%**

# Key Messages for Investors

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- **The distributed output market is growing and presents a number of attractive growth opportunities where Lexmark is underrepresented.**
- **Lexmark has unique strengths in this market, and continues to strengthen its competitive position through strategic investments.**
- **Lexmark has a strong financial position with a strong balance sheet and good cash flow.**