

# **4<sup>th</sup> Quarter 2006 Earnings Supplemental Information**



January 30, 2007

# Safe Harbor Statement

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.

# Key Messages for Investors

- **4Q06 a good quarter overall**
  - Strong branded unit growth in targeted segments of low-end mono lasers, color lasers, laser AIOs, and inkjet AIOs
  - Business segment revenue grew 11% year-to-year
  - Continued solid cash generation (4Q: \$143 million, 2006: \$671 million)
- **Good progress in 2006 on our product segment expansion, brand development initiatives**
  - Strong year for new product introductions, with new families of low-end mono lasers, color lasers, laser MFPs, and inkjet AIOs
  - New products received significant industry recognition and awards
  - Strong year for branded unit growth in key focus segments
  - Launched the next step in brand development initiative with the start of a new integrated brand advertising campaign
- **Financial position remains strong**
  - Over 1/2 billion dollars in cash and marketable securities at year end
  - Returned \$871 million to shareholders via share repurchase in 2006

# Strategic Initiatives

## Strategic Initiatives

Expand  
Product  
Segments

Expand  
Market  
Segments

Develop  
The  
Brand

## Expand Product Segments

### Laser AIOs / MFPs



### Color Laser



### Mono Laser



### Inkjet AIOs



## Develop The Brand



"75% of the leading banks, retailers and pharmacies use Lexmark to print smarter, save money and get more done."

## Expand Market Segments

Solutions /  
Services

SMB

Retail

# Recent Product Recognition

## Mono Laser

**E120n**  
 PC MAGAZINE PICKS of the YEAR 2006  
 PC WORLD

**E24X**  
 Better Buys for Business EDITOR'S CHOICE 2006  
 PC WORLD

**E250dn**  
 PC MAGAZINE

**E34X**  
 Better Buys for Business EDITOR'S CHOICE 2006

**T64X**  
 Better Buys for Business EDITOR'S CHOICE 2006  
 PC MAGAZINE Editors' Choice  
 BERTL Exceptional

**W840**  
 BERTL Exceptional

## Laser AIOs / MFPs

Outstanding Achievement for MFP Design

**X64X**  
 PICKS of the YEAR 2006  
 CRN TEST CENTER Recommended 2006  
 var Business TECHNOLOGICAL INNOVATOR WINNER 06  
 BERTL Highly Recommended

**X85X**  
 Better Buys for Business EDITOR'S CHOICE 2006  
 PICKS of the YEAR 2006  
 BERTL Highly Recommended

**X342n**  
 var Business MIDMARKET PRODUCTS  
 Better Buys for Business EDITOR'S CHOICE 2006  
 BERTL Highly Recommended

## Color Laser

**C500n**  
 PC MAGAZINE

**C52X**  
 PC MAGAZINE Editors' Choice  
 PICKS of the YEAR 2006  
 PC WORLD

**C534dn**  
 PC MAGAZINE Editors' Choice

**C920**  
 Better Buys for Business EDITOR'S CHOICE 2006

## Inkjet AIOs

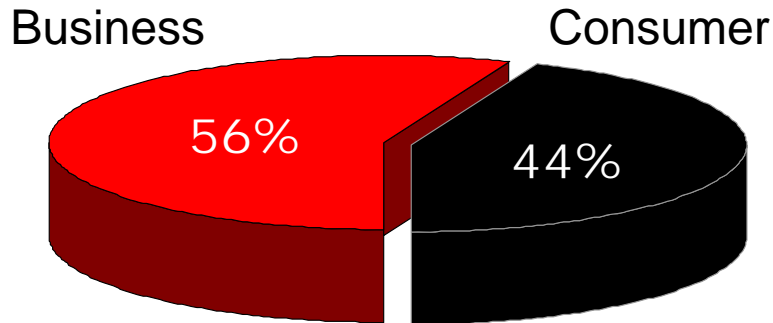
**X5470**  
 PC PRO RECOMMENDED  
 Computer Test-Sieger  
 DESIGN & ENGINEERING INNOVATIONS INTERNATIONAL INC. 2007

**X7350**  
 PC MAGAZINE

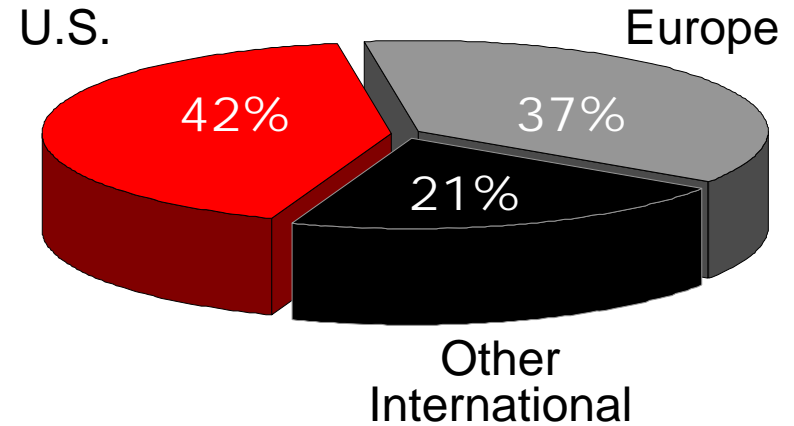
**X8350**  
 Better Buys for Business EDITOR'S CHOICE 2006

# 2006 Revenue

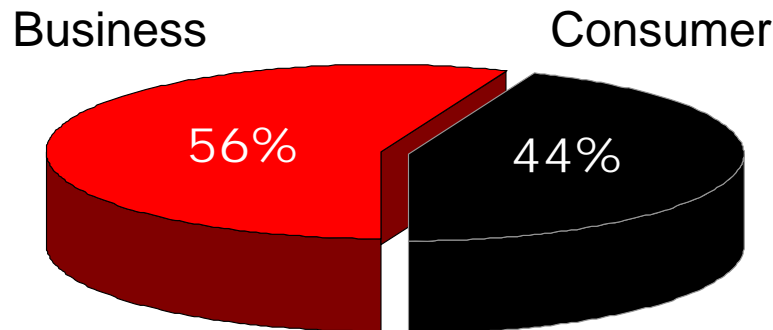
## 4Q by Segment



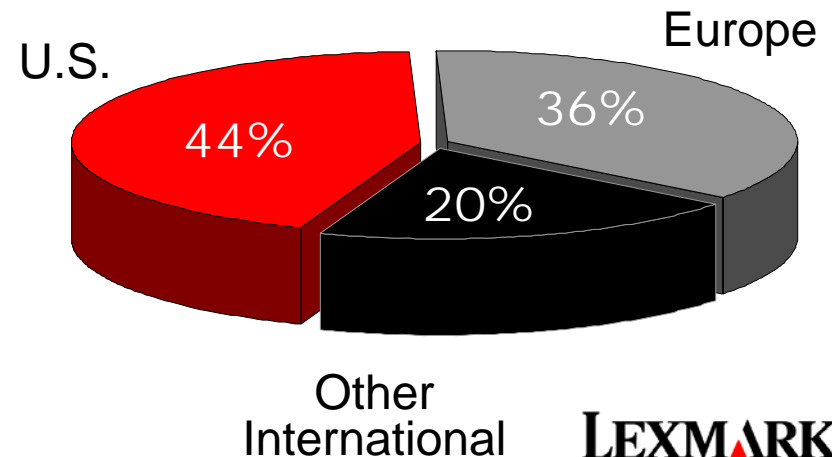
## 4Q by Region



## 2006 by Segment



## 2006 by Region



# Unit Trends, Revenue by Product

## Unit Trends

<i>(Millions)</i>	<b>2004</b>	<b>2005</b>	<b>2006</b>	2005 – 2006 Change
<b>Laser Units</b>	<b>1.7</b>	<b>2.0</b>	<b>2.1</b>	<b>+9%</b>
<b>Inkjet Units</b>	<b>18.3</b>	<b>18.4</b>	<b>14.7</b>	<b>-20%</b>

## Revenue by Product

<i>(Dollars in millions)</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Laser &amp; Inkjet Printers</b>	<b>\$ 1,663.0</b>	<b>\$ 1,799.4</b>	<b>-8%</b>
<b>Laser &amp; Inkjet Supplies</b>	<b>3,211.6</b>	<b>3,117.2</b>	<b>+3%</b>
<b>Other</b>	<b>233.5</b>	<b>304.9</b>	<b>-23%</b>
<b>Total Revenue</b>	<b>\$ 5,108.1</b>	<b>\$ 5,221.5</b>	<b>-2%</b>

# Revenue by Geography

## Revenue by Geography – 4Q06

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 577.0	\$ 595.8	-3%
Europe	509.7	493.5	3%
Other International	282.5	276.0	2%
<u>Total Revenue</u>	<u>\$ 1,369.2</u>	<u>\$ 1,365.3</u>	<u>0%</u>

## Revenue by Geography – Full Year

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 2,245.3	\$ 2,360.5	-5%
Europe	1,843.1	1,853.8	-1%
Other International	1,019.7	1,007.2	1%
<u>Total Revenue</u>	<u>\$ 5,108.1</u>	<u>\$ 5,221.5</u>	<u>-2%</u>

# Segment Revenue

## Segment Revenue – Fourth Quarter

<i>(Dollars in millions)</i>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 771.8	\$ 693.1	11%
Consumer	597.4	672.2	-11%
Total Revenue	\$ 1,369.2	\$ 1,365.3	0%

## Segment Revenue – Full Year

<i>(Dollars in millions)</i>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 2,869.1	\$ 2,774.8	3%
Consumer	2,239.0	2,446.7	-8%
Total Revenue	\$ 5,108.1	\$ 5,221.5	-2%

# Segment Operating Income

## Segment Operating Income – Fourth Quarter

<i>(Dollars in millions)</i>	2006			2005			YTY Comparison	
	GAAP	Restructure	NON GAAP	GAAP	Workforce Reduction	NON GAAP	GAAP	NON GAAP
Business	\$ 157	\$ 8	\$ 165	\$ 158	\$ --	\$ 158	0%	5%
Consumer	50	3	53	43	--	43	17%	22%
Other <sup>(1)</sup>	(104)	8	(96)	(87)	--	(87)	-20%	-10%
<b>Total operating income <sup>(1)(3)</sup></b>	<b>\$ 103</b>	<b>\$ 19</b>	<b>\$ 122</b>	<b>\$ 114</b>	<b>\$ --</b>	<b>\$ 114</b>	<b>-9%</b>	<b>7%</b>

## Segment Operating Income – Full Year

<i>(Dollars in millions)</i>	2006			2005			YTY Comparison	
	GAAP	Restructure	NON GAAP	GAAP	Workforce Reduction	NON GAAP	GAAP	NON GAAP
Business	\$ 600	\$ 36	\$ 636	\$ 661	\$ 6	\$ 667	-9%	-5%
Consumer	246	57	303	232	3	235	6%	29%
Other <sup>(1)(2)</sup>	(404)	32	(372)	(359)	1	(358)	-12%	-1%
<b>Total operating inc <sup>(1)(2)(3)</sup></b>	<b>\$ 443</b>	<b>\$ 125</b>	<b>\$ 568</b>	<b>\$ 534</b>	<b>\$ 10</b>	<b>\$ 544</b>	<b>-17%</b>	<b>6%</b>

- (1) All expense resulting from the adoption of SFAS 123R are included above in the "Other" line. 4Q06 and 2006 full year "Other" operating income and total operating income numbers above include \$10 million and \$41 million, respectively, for the adoption of SFAS 123R.
- (2) Full year 2006 "Other" line above excludes a \$10 million pension curtailment benefit.
- (3) Totals may not foot due to rounding.

# 4Q06 Revenue

- **Total revenue** of \$1.369 billion was about flat compared to a year ago:
  - Laser and inkjet supplies revenue grew 4%
  - Laser and inkjet printer revenue declined 2%
    - Laser units increased 15%. Strong branded laser unit growth overall driven by growth in laser AIOs, color lasers, low-end monochrome lasers and workgroup mono lasers. Laser average unit revenue (AUR) declined 4% impacted by both product mix and price declines
    - Inkjet units declined 18%. Declines in OEM printers and branded single function printers were partially offset by strong growth in branded AIOs. Inkjet AUR was up 1% year to year as price declines were offset by a mix shift to AIOs
  - Business segment revenue of \$772 million grew 11%; Consumer segment revenue of \$597 million declined 11%
  - Revenue in the U.S. declined 3%, revenue in Europe increased 3%, and Other International revenue grew 2%

# 4Q06 Margins

- **Gross Profit Margin 30.8%**

- Includes charges for restructuring-related activities of \$3 million
- Excluding the charges for restructuring-related activities, would have been 31.1%, up 280 basis points year to year principally due to a 350 basis point improvement in mix (decline in inkjet hardware / growth in laser supplies), partially offset by hardware margin declines and less benefit from the adjustment of lower of cost or market and adverse purchase commitment reserves
- 4Q05 gross profit margin was 28.3%

- **Operating Expense to Revenue Ratio 23.3%**

- Includes charges for restructuring-related activities of \$16 million
- Excluding the charges for restructuring-related activities, would have been 22.1%, up 210 basis points year to year mainly driven by increased investments in R&D and marketing, and the adoption of SFAS 123R
- 4Q05 operating expense to revenue ratio was 20.0%

- **Operating Income \$103 Million**

- Includes charges for restructuring-related activities of \$19 million
- Excluding charges for restructuring-related activities, would have been \$122 million
- 4Q05 operating income of \$114 million

- **Operating Income Margin 7.5%**

- Excluding charges for restructuring-related activities, would have been 8.9%
- 4Q05 operating income margin was 8.3%

# 4Q06 Taxes & EPS

- **4Q06 Effective Tax Rate 15.9%**

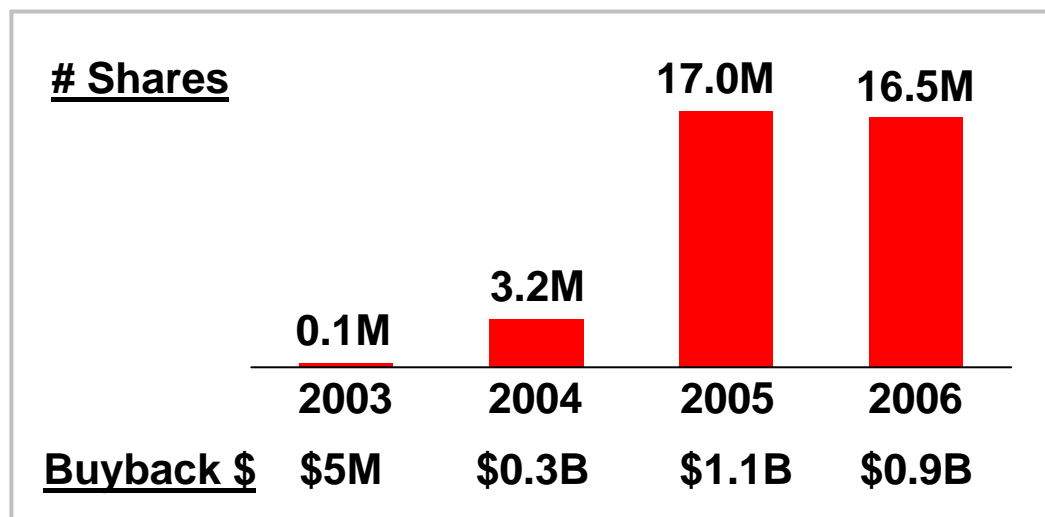
- Lower than the 30% included in the 4Q06 guidance primarily reflecting the retroactive extension of the U.S. Research and Experimentation tax credit
- Tax rate for 2007 expected to be 27%
- 4Q05 effective tax rate of 30.4%

- **4Q06 EPS \$0.91**

- Includes costs of adopting SFAS 123R of \$0.06 per share
- Includes \$0.14 per share charges for restructuring-related activities
- 4Q06 EPS would have been \$1.05 excluding charges for restructuring-related activities
- 4Q05 EPS were \$0.71

# Cash Generation & Share Repurchase

- **Cash generation from ops of \$143 million in 4Q06, \$671 million in 2006**
  - Cash and marketable securities of \$551 million at year end
  - Capital expenditures were \$58 million in the quarter
  - Depreciation/amortization was \$41 million in the quarter
- **Share repurchases were \$141 million during the quarter**
  - Repurchased 2.1 million shares at an average cost of \$66.50
  - Approximately \$460 million authorization remaining at quarter end



# Outlook

## In the 1st quarter of 2007, the company expects:

- **Revenue** to be down year to year in the low- to mid-single digit range
- **Gross margin** to be up both year over year and sequentially
- **Operating expense to revenue ratio** to be up both year over year and sequentially
- **Operating income margin** to be down year over year, and up sequentially
- **Effective tax rate** expected to be approximately 27% in 1Q07 and for full year 2007
- **EPS** of \$0.93 - \$1.03:
  - Excludes \$0.03 per share for restructuring-related charges
  - GAAP EPS are expected to be \$0.90 - \$1.00
  - EPS were \$0.78 in the 1<sup>st</sup> quarter of 2006, or \$1.03 excluding \$0.31 per share restructuring-related charges and \$0.06 per share pension curtailment benefit
- **Capital expenditures and depreciation** for 2007 projected to be about \$235 million and \$150 million, respectively

# Tables

- GAAP to Non-GAAP Reconciliation Table
- Restructuring-Related Summary
- SFAS 123R Impact Summary

# GAAP to Non-GAAP Reconciliation Table

	<u>4Q06</u>				<u>Full Year 2006</u>				<u>1Q07 Guidance</u>
	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>EPS</u>	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>EPS</u>	<u>EPS</u>
<b>GAAP</b>	\$422	\$319	\$103	\$0.91	\$1,646	\$1,203	\$443	\$3.27	\$0.90 – \$1.00
<b>Restructuring Related <sup>(1)</sup></b>	\$3	(\$16)	\$19	\$0.14	\$42	(\$93)	\$135	\$0.91	\$0.03
<b>Pension Benefit</b>						\$10	(\$10)	(\$0.07)	
<b>Non-GAAP <sup>(2)</sup></b>	\$425	\$303	\$122	\$1.05 <sup>(3)</sup>	\$1,688	\$1,120	\$568	\$4.12	\$0.93 – \$1.03

Note: Management believes that presenting these measures is useful because they enhance shareholders' understanding of how management assesses the performance of the Company's businesses. These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

- (1) Charges for restructuring-related activities include accelerated depreciation, employee separation costs, contract termination charges and project costs (related to the execution of restructuring-related activities). Project costs included above are as follows: 4Q of \$10M, full year 2006 of \$14M.
- (2) Totals may not foot due to rounding.
- (3) 4Q06 Non-GAAP EPS of \$1.05 provided above would be \$0.93, normalized \$0.12, if the 27% tax rate forecasted for 2007 were applied.

# Restructuring-Related Summary<sup>(1)</sup>

Actions announced in January, 2006 cost \$135 million and generated approximately \$60 million in 2006 pretax savings<sup>(2)</sup>. Expected to generate pre-tax annual savings of about \$80 million on a go-forward basis

	<u>Gross Profit</u>	<u>Op Inc</u>	<u>EPS</u> <sup>(3)</sup>
<b>1Q06 Actual</b>	<b>(\$19)</b>	<b>(\$50)</b>	<b>(\$0.31)</b>
<b>2Q06 Actual</b>	<b>(\$16)</b>	<b>(\$53)</b>	<b>(\$0.35)</b>
<b>3Q06 Actual</b>	<b>(\$4)</b>	<b>(\$13)</b>	<b>(\$0.10)</b>
<b>4Q06 Actual</b>	<b>(\$3)</b>	<b>(\$19)</b>	<b>(\$0.14)</b>
<b>2006 Actual</b> <sup>(4)</sup>	<b>(\$42)</b>	<b>(\$135)</b>	<b>(\$0.91)</b>

(1) Charges for restructuring-related activities include accelerated depreciation, employee separation costs, contract termination charges and project costs (related to the execution of restructuring-related activities). Project costs included above are as follows: 2Q of \$1M, 3Q of \$3M, 4Q of \$10M, and 2006 of \$14M.

(2) 2006 savings of approximately \$60M include \$10M of pension curtailment benefit.

(3) EPS calculated using tax rates of 31.6%, 30.8%, 28.1%, 27.0% for 1Q, 2Q, 3Q, and 4Q, respectively.

(4) Totals may not foot due to rounding.

# SFAS 123R Impact Summary

Costs related to adopting SFAS 123R options expenses included in 2006 results

<u>\$ Millions</u>	<u>Gross Profit</u>	<u>Op Inc</u>	<u>EPS</u> <sup>(1)</sup>
<b>1Q06 Actual</b>	<b>(\$1)</b>	<b>(\$10)</b>	<b>(\$0.05)</b>
<b>2Q06 Actual</b>	<b>(\$1)</b>	<b>(\$10)</b>	<b>(\$0.06)</b>
<b>3Q06 Actual</b>	<b>(\$1)</b>	<b>(\$10)</b>	<b>(\$0.06)</b>
<b>4Q06 Actual</b>	<b>(\$2)</b>	<b>(\$10)</b>	<b>(\$0.06)</b>
<b>2006 Actual</b> <sup>(2)</sup>	<b>(\$6)</b>	<b>(\$41)</b>	<b>(\$0.24)</b>

(1) EPS calculated using tax rate of 38%.

(2) Totals may not foot due to rounding.