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CEO/CFO Statements
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Courtney Holben, IRO

Thank you, operator, good afternoon, everyone. This is Courtney Holben, Vice President of Investor Relations. Thank you for joining us. Earlier today, Unisys released its third quarter 2018 financial results. I'm joined this afternoon to discuss those results by Peter Altabef, our Chairman, President and CEO; and Inder Singh, our CFO.

Before we begin, I'd like to cover a few details. First, today's conference call and the Q&A session are being webcast via the Unisys Investor website. Second, you can find the earnings press release and the presentation slides that we will be using this afternoon to guide our discussion, as well as other information relating to our second quarter and year-to-date performance on our Investor website, which we encourage you to visit. Third, today's presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. These non-GAAP measures have been reconciled to the related GAAP measures and we've provided reconciliations within the presentation.

Although appropriate, under generally accepted accounting principles, the company's results reflect charges that the company believes are not indicative of its ongoing operations and that can make its profitability and liquidity results difficult to compare to prior periods, anticipated future periods or to its competitors' results. These items consist of pension and cost reduction and other expense.

Management believes each of these items can distort the visibility of trends associated with the company's ongoing performance. Management also believes that the evaluation of the company's financial performance can be enhanced by use of supplemental presentation of its results that exclude the impact of these items in order to enhance consistency and comparativeness with prior or future period results.

The following measures are often provided and utilized by the company's management, analysts and investors to enhance comparability of year-over-year results as well as to compare results to other companies in our industry. Non-GAAP operating profit, non-GAAP diluted earnings per share, free cash flow and adjusted free cash flow, EBITDA and adjusted EBITDA, and constant currency.

In addition, this year we have been reporting non-GAAP adjusted revenue and related measures as a result of the adoption of the new revenue recognition rules under ASC 606 to exclude revenue that had previously been recorded in 2017 under ASC 605 in addition to other minor adjustments. For more information regarding these adjustments, please see our earnings release and our Form 10-Q for the quarter.

From time to time, Unisys may provide specific guidance regarding its expected future financial performance. Such guidance is effective only on the date given. Unisys generally will not update, reaffirm or otherwise comment on any prior guidance, except as Unisys deems necessary, and then, only in a manner that complies with Regulation FD.

And finally, I'd like to remind you that all forward-looking statements made during this conference call are subject to various risks and uncertainties that could cause the actual results to differ materially from our expectations. These factors are discussed more fully in the earnings release and in the company's SEC filings. Copies of those SEC reports are available from the SEC and along with the other materials I mentioned earlier on the Unisys Investor website.

And now, I'd like to turn the call over to Peter.

Peter Altabef, CEO

Thank you, Courtney. And thank you all for joining us today to discuss our third quarter financial results. Our go-to-market momentum continued as we saw our fourth consecutive quarter of year-over-year total revenue growth and our second consecutive quarter of year-over-year Services revenue growth.

Total third quarter revenue growth grew 3% year-over-year and the Services segment revenue grew 5%. Focus industry revenue grew 9% year-over-year and Technology revenue came in stronger than the expectations we noted on our last call, growing sequentially.

This momentum was also reflected in TCV. Year-to-date TCV and new business TCV have grown at 93% and 131%, respectively. In the third quarter, TCV grew 46% year-over-year and new business TCV increased 133% year-over-year.

Year-to-date ACV is up 22% and year-to-date new business ACV is up 11%. In the third quarter, we saw ACV down 9% year-over-year and new business ACV down 8%. But this was driven by a tough compare in our federal business, which had several large short-term new scope contracts in the third quarter of 2017 that boosted both ACV and new business ACV in that period.

Subsequently, some of those contracts have become part of the base for renewals in 2018. And we were also able to bring in new expansion work under those contracts this year.

These results were further supported by improved profitability. Non-GAAP operating profit margin expanded 20 basis points year-over-year to 7.7%, which exceeded company expectations that we discussed on last quarter's call. And adjusted EBITDA margin also expanded 50 basis points year-over-year. We're reaffirming our full-year guidance. And Inder will provide more color on this as well as our broader financial results shortly.

At the segment level, Services revenue grew at the highest rate we have seen in recent quarters. As we've discussed, new managed services contracts can impact margins in the short-term as costs are incurred during implementation and before revenue is recognized.

As a result of this, Services non-GAAP adjusted operating margin was down 60 basis points overall year-over-year during the third quarter. But new business contracts accounted for all of this and more with a negative impact of 240 basis points on Services gross margin. Despite the temporary impact of this new business on margins, we continue to work to increase the efficiency of our Services delivery engine.

Our ratio of full-time equivalents, or FTEs, to managed devices in our cloud and infrastructure services business improved by 28% year-over-year in the quarter. And as we discussed last quarter, we have recently launched Unisys InteliServe, enhancing our intelligent user centric service desk experience for our digital workplace solution. The InteliServe platform allows users to access support services securely and in a simple and personalized manner across all channels and helps differentiate our go-to-market efforts in digital workplace solutions.

We continue to make progress with this offering, including signing contracts with two new clients during the quarter. We have already begun the process of bringing these clients on to the platform and expect full implementation within the coming months. We're also in talks with several additional clients who are interested in transitioning to this platform.

Moving to our Technology segment, Technology revenues for the third quarter were ahead of the expectations we discussed on the last call, up 2% sequentially. This represents a shift versus our typical seasonality, but does not change our expectations for the year overall.

As part of our ongoing emphasis on security, which has elements in both our Services and Technology segments, during the third quarter, we launched Unisys TrustCheck, which is a new service that translates risk into potential dollars lost and security controls into financial savings.

Our dashboard provides a return on investment by security solution based on a big data analytics engine that is used by the insurance industry to issue cyber insurance policies. TrustCheck is delivered as a managed service on an annual subscription basis, giving security professionals constantly updated information on their organization's cybersecurity posture and recommended steps for remediation.

With respect to Stealth, our revenue was up over 90% year-over-year in the third quarter. TCV for Stealth grew 15% year-over-year with the year-to-date TCV up over 200% year-over-year.

Stealth is also differentiating our broader set of offerings, as it is further integrated into our solutions. As an example, Stealth acted as a differentiator in the bid process for a contract we signed in the third quarter with United States Army for the first phase of Next Generation Biometric Collection Capability. We're leveraging our Stealth (identity) Software solution and deep domain expertise in biometric systems integration to provide the end-to-end data flow required to support multiple U.S. Army operational missions and to be capable of achieving efficient identity matches to the soldier in the field.

I'll now provide some color on our various sectors, starting with U.S. Federal. U.S. Federal sector revenue was down 5% year-over-year in the quarter, but driven by the timing of Technology renewals. TCV and pipeline were significantly up year-over-year for the sector in the quarter and we continue to feel good about our ability to grow revenue in this business for the full-year of 2018.

On our last call, we discussed the launch of our CloudForte platform, which enables accelerated digital transformation for our clients. CloudForte provides a comprehensive set of consulting and managed services offerings to help accelerate and the secure move and management of data and applications to public and hybrid clouds. And just as InteliServe and Stealth are helping to differentiate our digital workplace and security efforts, CloudForte is helping to do the same in our cloud and infrastructure and application solutions businesses. We expect to rollout CloudForte to clients outside of the Federal sector by early next year. In Federal, during the third quarter, we signed a contract with the U.S. Department of Veterans Affairs, which is a new logo client for Unisys.

Under this contract, we'll provide cloud advisory services to help accelerate the VA's transition to the cloud, supporting its goals of delivering secured digital experiences to benefit United States veterans' community.

Additionally, in the third quarter, we signed a contract with the U.S. Census Bureau, to provide IT infrastructure support services for thousands of mobile census takers, as well as the Bureau's workforce in 248 local offices and six regional centers. Under the contract, valued at more than $100 million, Unisys will be responsible for all IT equipment, logistics, maintenance and other services in support of the upcoming 2020 U.S. decennial census.

In our public sector, revenue was down 2% year-over-year, but we continue the trend, I noted last quarter. As in this quarter, we signed a $242 million contract with the Virginia Information Technology Agency to help modernize the State of Virginia's technology infrastructure. Our solutions are resonating with state government clients. As Virginia follows contract signed with Kansas, Hawaii and Georgia in the last 12 months.

During the third quarter, we also announced the global availability of our FamilyNow Child Portal, a tool for children at risk that enables child welfare workers to better address their needs by more easily communicating with their children clients. This helps caseworkers take action more efficiently and focus on outcomes. All child porter data and communications are protected through our cyber security and privacy protection tools.

Our Commercial sector saw revenue growth in both Services and Technology, and grew 18% overall in the quarter. During the quarter, we signed a contract with the Bangalore International Airport to develop a Center of Excellence which will support a business intelligence and advanced data analytics platform to consolidate and rationalize strategic, tactical and operational reporting for the Airport. This platform will be designed to enable staff to make faster and better informed business decisions. Process air travelers more quickly and enhance the airport experience for customers.

In Financial Services, revenue was down 4%, but driven by the schedule of Technology revenues. Services revenues grew in this sector in the third quarter. And during the quarter, we signed a contract for our omnichannel banking platform elevate with Monmouthshire Building Society to provide new current account services to its customers. The new services include digital wallet capabilities would provide Monmouthshire customers more flexibility in managing their money.

In conclusion, we feel good about our continued process and progress in the third quarter and believe we're on track for our full-year 2018 guidance. Inder provide more color on this as well as on our financial performance in general.

So I'll now turn the call over to him.

Inder Singh, CFO

Thank you, Peter. Good afternoon everyone and thank you all for joining us today. We're very pleased with our strong business results for the third quarter, which I'll discuss in more detail shortly. In my comments, I'll discuss both GAAP and non-GAAP results and provide color for our key business drivers.

Please turn to slide 7, which provides some of the key financial takeaways and I'll then provide additional details throughout the rest of the discussion. In our third quarter, we saw a continued momentum across many fronts in our business, let me highlight a few of these. Q3 marked the fourth consecutive quarter of reported year-over-year revenue growth. Total company revenue of $688 million for the third quarter grew by 3.3% year-over-year or 5.8% on a constant currency basis.

Importantly, we saw strength in a number of our geographies such as EMEA and Asia-Pacific and I'll provide more color on this regional view shortly. Our Services segment revenue grew 5.2% year-over-year or 7.6% in constant currency, marked third quarter of growth for this segment.

These results were supported by growth in our biggest line of business within our Services segment, cloud and infrastructure, and also in our smallest line of business BPO. Technology revenue came in better than our expectations, which we had discussed on our last earnings call. As a result, revenue for this segment was $82.7 million, which was up sequentially. This marks an improvement versus the typical seasonality that we expected coming into the quarter as Peter mentioned already.

In the third quarter, we had a small non-GAAP adjustment to Services revenue of $3.1 million related to reimbursement of restructuring expenses at our check-processing joint venture. But even net of that adjustment, Services revenue grew by 4.7%.

With the stronger than expected performance of our Technology revenue contributed to the stronger company level profitability in Q3, GAAP operating margin was 8.1% which is an expansion of 850 basis points year-

over-year. The third quarter of last year had included restructuring charges, and as we have discussed this program was largely complete as of the end of last year, which helped the year-over-year comparison.

Non-GAAP operating profit margin was 7.7%, up 20 basis points year-over-year. Adjusted EBITDA margin also expanded in Q3 to 14%, which is 50 basis points higher year-over-year.

Lastly, with respect to profitability, diluted EPS for the quarter was $0.12, up significantly compared to the $0.81 loss per share last year. Non-GAAP diluted EPS was $0.39 versus $0.31 in the third quarter last year.

In addition to the revenue growth in our Services business that I noted earlier, we saw continued momentum in our backlog with year-over-year growth for the fourth consecutive quarter. Backlog in Q3 grew by 33% year-over-year to reach $4.9 billion. This growth rate is the highest we have seen in this metric, since the end of 1999. These results reflect that our go-to-market strategy has gained traction. And our emphasis on cyber, physical and logical security has been differentiating our broader offerings.

Turning now to slide 8, I've already covered the trends shown here, so I won't repeat them. However, you can clearly see the progress made during the quarter with respect to the key metrics on both growth and profitability.

If you turn to slide 9, we can see trends by geography and sector. I'll start on the left hand side of the page, which shows revenue by geography. And I will note again for our total company, revenue growth on a constant currency basis was 5.8%. The movement in the Brazilian real, the euro and the pound sterling as compared to the dollar were the largest contributors to the currency impact we saw in the third quarter.

As this slide shows our three largest regions, all grew year-over-year in the third quarter. The growth in each of these regions was supported by growth in our largest segment, which is Services.

With respect to Latin America, the year-over-year decline was driven in part by currency specifically the Brazilian real, as I noted, and in our Technology segment where we had a very strong quarter in the third quarter of last year due to renewals in Brazil. On the right hand side of the page, you see the sector performance, which Peter has already discussed. So I won't repeat that.

Please turn to slide 10 for our segment results. As we have said, we saw year-over-year improvement this quarter with respect to Services revenue and backlog, continuing the momentum we have seen in that metric over recent quarters. We also saw a higher mix of software revenue which helped margins in our Technology segment.

We did see a slight Services operating margin compression of 10 basis points year-over-year, which was entirely as a result of the ramp up and transition phase of new business weighing on margins. I already noted our backlog growth of 33% year-over-year to $4.9 billion. Of this amount, we expect approximately $575 million to convert into Services revenue in the fourth quarter of 2018. As we noted, the Technology segment saw higher revenue this quarter than the expectations that we discussed on last quarter's call. Margins also expanded significantly year-over-year with Technology operating profit up 860 basis points year-over-year, driven in part by the higher mix of software revenue that I just highlighted.

Turning now to slide 11, which provides more detail on EBITDA and cash flow. As you can see on the slide, EBITDA and adjusted EBITDA margins both expanded year-over-year with a more substantial increase of 930 basis points in EBITDA margin due to the fact that this metric was affected last year by restructuring expenses.

Adjusted EBITDA dollars grew from $90 million last year to $96 million this year. Cash used in operations was $16 million in the third quarter. Adjusted free cash flow for the quarter was negative $6 million, compared to $70 million in the third quarter of last year. These cash flow results were driven largely by an increase in

receivables related to the timing of several Technology contracts, which were signed late in the third quarter, for which we did not receive cash immediately in Q3.

CapEx was largely consistent year-over-year, as we continue to focus on managing these expenditures.

With respect to our pension obligations, as we have discussed in the past, rising rates have a beneficial impact on the discount rates we use in our pension valuation analysis. As you know it is not just interest rates that can impact our pension obligations, but also return on assets. Interest rates have trended higher, in general, since our last call, yet markets remain volatile overall, which we continue to monitor.

Also during Q3, we successfully finalized the latest round of tri-annual negotiations related to some of our international pension plans, which resulted in a favorable impact to the required cash payments estimated for the next 10 years. As has been our typical practice, we plan to provide a full update on our pension obligations at the end of the year.

Turning now to guidance. With three strong quarters behind us, we are reaffirming the full-year 2018 financial guidance that we had provided at the beginning of this year. For full year revenue, we are reaffirming our non-GAAP adjusted guidance range of $2.7 billion to $2.825 billion. And our range for GAAP revenue also remains $2.75 billion to $2.875 billion, representing flat to 5% growth.

As we have noted in prior quarters, while we cannot predict macro factors or the exact timing of large tech deals, which can always have an impact on results, we believe it is likely that our revenue will grow for the full-year 2018.

We are also reaffirming our guidance of 7.75% to 8.75% for non-GAAP operating profit margin. On a GAAP basis, this range would be 9.5% to 10.5%.

And lastly, we are reaffirming our guidance range for adjusted EBITDA margin of 13.7% to 14.9%.

We believe our financial performance for the third quarter marks yet another important step in our continuing transformation of the company and progress towards our full-year goals. We're encouraged by the revenue momentum we saw this quarter in our Services business. And the team will continue to work to improve efficiency within it. We look forward to continuing to execute during the fourth quarter and maintaining our sharp focus on delivering results for the full year.

And with that, I'll turn the call back to Peter.

Question & Answer Section

Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.: Congratulations on the nice results. My first question was about the pipeline, very strong trajectory there in terms of absolute numbers, but could you comment briefly on the profitability of that work and the type of work you see coming in?

A – Peter Altabef – Unisys Corp.: Sure. So this – obviously, this is a change that the company started to experience last year. And last year was really the first year that we had an uptick in our signings.

With respect to almost all of our business, a little different perhaps on some software only sales, but for the vast majority of our business, we're doing multi-year contracts. And those contracts have a transition period in which you're typically going to find, for some periods you're not going to have revenue recognition at all, but even when you get revenue recognition, it's usually not nearly as profitable as you expect in the beginning of the contract.

So we started seeing that last year. And we've continued to see that this year. So the contracts we signed last year have become more profitable this year. They're still not at the profitability we expect to achieve long-term. And the contracts that we have signed this year are obviously at less than we expect to achieve.

So in my comments today, I noticed just looking at the contract we signed this year, as well as the ones we signed last year. So those that are coming online, you put those together and that had a negative effect of about 240 basis points, which kind of overwhelm the fact that we had 60 basis points negative as a whole, so it would have been 180 basis points positive, were it not for the new business. But that's the way our industry works. And you can't really grow without that.

Now at some point, we begin to grandfather this. So at some point, yes, you're going to continue to have the negative effect of new business signing, but you will by then have existing contracts that are maturing and getting more profitable.

So you always have a portfolio as you grow the business. But when you really are restarting this engine from a long time of not having it, you don't have the yin versus the yang, you only have the yin. And so that's kind of what you're seeing right now. But even with that we're seeing increase in our profitability, but for the new business.

Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.: Okay, great. That's very helpful. And then maybe for Inder, could you comment a little bit on the seasonality of the Technology segment into 4Q? We saw a little bit more than expectations in 3Q. Does that impact the cadence going forward?

A – Inder Singh – Unisys Corp.: We did see a stronger Q3 than we normally see, Frank. We were pleasantly surprised by the ability of the business to see those renewals come together in the quarter. It doesn't change our view of the guidance we provided for the full year. We do believe that we have a rich pipeline of opportunities for renewals in the coming quarters including the fourth quarter for us. So I don't see that as a tradeoff of one quarter versus another to get to your question.

Q – Frank Atkins – SunTrust Robinson Humphrey, Inc.: Okay, great. And last one from me. Can you comment a little bit on the talent acquisition and retention environment and the current mix of kind of global deliveries? What are you doing to ensure continued progress there?

A – Peter Altabef– Unisys Corp.: Yeah, I would actually say that is more of a challenge than we have had traditionally. And that's really the result of the fact that we're hiring different people. As this company moves much more strongly into a digital world, the scope of talent that we're hiring really is changing and we are competing more and more against players that are mainstays in that world. We're doing a good job of it, but that too is at least in the short-term pressuring margins a bit, not so much from the cost of those people, but from the timing of those people.

So we have a pretty sizable number of open slots especially in new digital roles that we have to sign. And so anybody on this call who is in the employment business and wanting to work for us please call us, because we are open for business. And we have really reversed a trend from the last couple of years. And we're now actually increasing our net hires.

But the folks we're increasing are far different than what we traditionally had. And we're working really hard to transition some of the skills of our existing team. So we have an internal program called Unisys University. I think, we've had more than a quarter of a million courses taken in the last year and people are really, really focused on upping their skills. So, transitioning this company into, what I call, a learning organization is actually a very, very big deal.

Q – Joe Vafi – Loop Capital Markets LLC: Hey, guys. Good afternoon. Great results on the bookings. Peter or maybe Inder, could you give us a feel on the growth in the backlog this year what's your feel for the duration of that backlog is duration getting extended or compressed versus what was in it before, just trying to get a feel for how backlog converts to revenue over time?

A – Inder Singh – Unisys Corp.: Yeah, look I think that the length of the contracts that we have seen over the last couple of years as we've commented before, Joe, have been maybe a little bit shorter in the number of years than they were historically. If they were five years long several years ago they are three to five-year-ish now.

What that would tell you is that as that backlog builds a greater proportion of that backlogs return into revenue, maybe a little more sooner than we would have seen it five years ago. Not that I'm saying I'm giving you any guidance for next year at this point in time because obviously we're not prepared to do that. But as we think about the next several years and you look at that long-term growth model that we put out there for you. We're pleased to see that the backlog has been performing in a way that allows us to feel comfortable with that growth model. If you do the – you can do the math on the numbers that I gave you around how much of that backlog will turn into revenue in the next quarter. It can vary slightly from quarter-to-quarter but not all that much. So without doing the math for you, I'm sure you can do it as well, we do expect this to turn into revenue in the next few quarters – in the next few years.

Q – Joe Vafi – Loop Capital Markets LLC: Okay. And then, if you look at your bookings kind of on a global basis and new business wins, do you feel – because you have a more global business than maybe other companies of your similar size. Do you feel you have your resources allocated properly at this point globally versus the growth opportunities in those geos, say, looking into next year?

A – Peter Altabef – Unisys Corp.: Yeah, Joe. This is Peter. That's a great question. And obviously that evolves and we've got to evolve it as those opportunities change. We feel pretty good about each of the geographies going into next year in long-term. Obviously, this quarter we had growth in three of the four.

Latin America, I think, into explained both of that was hit by some technology, which was really the reason why it didn't grow. Going forward into next year, I think EMEA will continue, we grew quarter-to-quarter this year. EMEA continues to be a challenge, I think, for the industry. It is also a challenge, I think, in the fact that it is interestingly to some extent replacing the U.S. as the biggest battleground for the industry.

So with a lot of the immigration focus in the U.S., I think you're seeing some players focus even harder on Europe, in terms of their ability to try to compete there and that's making the European business tougher. And we need pricing discipline and we have pricing discipline to make sure that the deals we sign are long-term good deals.

The reverse side is in the U.S. And in the U.S., I think you're seeing us be more relevant and growing faster in terms of new business signings here. I think that's because of our offerings and it's also because there is a little less competition because of some of those immigration concerns.

So the U.S. and EMEA are kind of changing a bit in that dynamic. Specifically to your question, we've got to make sure we've got the right allocation of sales force as well as support and delivery teams in those two respective regions, and I think that we do, but we're certainly looking at that all the time. If anything that will require us to make some more additional changes next year, akin to what we did here two years ago.

When we look at Latin America and Asia Pacific, both are really long-term growth stories for us. Obviously currency in Brazil has weighed heavily this year, but we can't forecast currency.

Q – Joe Vafi – Loop Capital Markets LLC: Okay. And then maybe a couple on cash flow, cash flow was negative this quarter and I heard Inder's comments on some Technology receivables, but I think – if you look at cash

flow this year, I think all three quarters have been negative. And I'm just trying to get a better feel for when you think that turns and secondly on, do you look at the business you've signed this year and do you look at its capital intensity versus what was in the backlog before, I'd be interested in your comments on that. Thanks.

A – Inder Singh – Unisys Corp.: Yeah. So a couple of things, I think when we started this year, we talked about a couple of items that you should put into your calculus for cash flow for this year. One was our joint venture in the UK called iPSL, if you recall. This is a venture that we have with three very large European banks, UK-based banks, actually. And that venture just does for them, the vast majority of the Check processing in that area. And there was a big IT upgrade project, and also frankly, a restructuring within that venture. And that caused them to use more automated less manual processing.

The good news is that it drives down the cost over time. Bad news is of course it uses cash as you're doing both the restructuring and the upgrading of the IT systems. For us, we were actually reimbursed for those costs. But there's some kind of a lag between the time that we actually incur the costs and the time that we actually reimbursed for it especially on things like CapEx.

So at the beginning of the year I point to that as one of the things you'll see in the second half of the year and that's what you're starting to see.

The second is, if you recall, we had completed essentially we said our restructuring plan last year. But some of the European and other non-U.S. region headcount reductions would result in cash outlays in this year and partly in next year and you're seeing the effect of that.

The third thing that I'd pointed out and this is relative to Q3 frankly. There was a large tech renewal at the very end of the quarter and I alluded to that in my comments, for which we obviously couldn't complete the work as well as get cash collections in the same quarter. We expect that to be in the fourth quarter. So zooming out a little bit here to help you get some context, the fourth quarter is typically our strong cash flow quarter, not just this year but most years that we've seen. It is also, of course, the highest tech quarter for us historically, so not unusual to see the pattern that we have looked at in terms of the last few years as well.

So I look at it in the way that you're looking at. I would also add the following, we've been working very hard, as you know, over the last couple of years on focusing on our pension cash obligations. So we talked about the sources of cash as we just did. We also talked about the uses of cash. And we've been fortunate knock on wood that the environment at least up to the June quarter when we reported we provided you some color on the improvement we saw in those cash projections for the pension plan. I mentioned in the call, and thanks for asking the question, on cash flow that the future cash flow obligations for our international plans for the next 10 years have also improved.

The level of that improvement over the next 10 years meaning between essentially now and the end of 2027 is about $125 million. So that does mean that there's some cash obligations beyond 2027, of course, for some of those plans. But as we look at this, the time value of money is working in our favor on some of those cash obligations.

So I'd like to look at it from a longer-term perspective. I appreciate your question around the quarter, of course, and I hope I was able to answer that. But as we look at the long-term, we are working on sort of all cylinders to drive operating cash flow higher at the same time making sure that our capital structure and our pension obligations are managed in the right way.

It's hard to say which way markets go and volatility can always have a role and maybe you're better at guessing which way markets go than we are from day-to-day. And so we'll give you a full update at the end of the year, but at least the negotiated part which is the tri-annual negotiation we go through resulted in some favorable improvements of $125 million and hopefully that helps to answer your question.

Q – Joe Vafi – Loop Capital Markets LLC: Okay, great. And then maybe just on the capital intensity of some of the business signed this year or is it same as it's been, is it improving or what's the trajectory on capital intensity? Thanks.

A – Peter Altabef– Unisys Corp.: Yeah, Joe, this is Peter. I think the capital intensity of the projects and I know you are very sensitive to that. I am very sensitive to it. It does depend a bit on which deals we're signing at what time. You saw us sign a $242 million deal in the quarter with the State of Virginia. We have been, I would say, surprisingly successful, and I don't want to say surprising in the sense we didn't think we would win these, but we really have been very successful in our U.S. state government work with significant signings in Hawaii, Kansas, Georgia and now Virginia in the last 12 months.

In general, if I look out and say which of our deals tend to be a little more capital intensive, not necessarily hugely more, but a little more they tend to be the public sector, and by public, I mean the government sector that is not the federal sector, so we have been really successful in that sector and these are really good deals. So in Hawaii we're putting in a new, if you will, social services net system through the State of Hawaii around family care and child welfare as well as enforcing payments by parents who have child support.

In Kansas and Virginia and Georgia, we're putting in infrastructure modernization programs that go all the way up from modernizing hardware and software to putting platforms into the cloud and to managing the cloud for these states, and to move – being able to move data back and forth between different clouds.

So this is really good work. But the public sector in the U.S. tends to be a little more capital intensive as state governments would prefer not to have all of the costs capitalized and some of the costs operating.

So, compared to what we thought last year, at least this year signings will tick up some of that spend a bit. Now whether that continues into next year or not depends on the mixture of what we sell next year. Certainly as you get into other offerings, I mentioned, elevate in financial services elevate when you're dealing with banks, those tend not to be capital intensive because, of course, banks have a much lower cost of capital than we do. So really just depends on what we're selling. But this year's sales were a little more capital intensive.

Q – Bill Smith– WM Smith & Co.: Thank you. Well, congratulations, Peter, Inder and Courtney, and what a great job on the top line and the margin expansion. It's so good to see this. And congratulations on your results.

The question on the marketing and how you're able to achieve this kind of success. Could you comment, Peter, on is it your direct sales force? Is it an indirect partnership with other entities? Or can you comment on that a little bit in terms of the success that you've had?

A – Peter Altabef – Unisys Corp.: Yeah, Bill, thank you for those kind words. And to answer your question, it's actually both.

So I actually think the sales success is due to four different items. So the first is actually marketing in a big way. So for instance when we talk about the Unisys brand and the resurgence of the Unisys brand, you may have seen we – some of that is marketing in terms of advertising. We did obviously more of that this year than we have before. That's important.

Some of it is just Unisys in the news. So we have something called the Unisys Security , which we have done now for 11 years. And it is the – it fits perfectly into our security focus. It's the longest running continuously monitored consumer security index of its kind in the world. We do it in 13 countries around the world. And we released the results about 10 days ago.

And in the last 10 days we have had coverage in over 1,200 media outlets around the world and 700 pieces of broadcast coverage. So in addition, if you will, to paid advertising, this kind of non-paid marketing branding is

really helping our sales efforts. People really understand Unisys, and they're getting the connection with security. So I'd say that's number one.

Number two is our offerings are simply better. I mean, it's a lot easier to sell this stuff. The use of the focus industries that we launched a couple of years ago, creating integrated solutions where you go all the way from global workspace to cloud and infrastructure to application development to specific software engineered for those industries. It's just a much easier, cleaner story. And that's why we're seeing some more success.

And then the final two areas would be the two that you specifically talked about. Yes, I think, the sales force is getting better as it understands what we're doing. And then, yes, we're using partners more.

So in addition to kind of our global alliance partners, the AWSs and the Microsofts and the Dell EMCs and the ServiceNows, we really are using targeted partners much more effectively. So we're using Palo – working with Palo Alto Networks, we're working with Cylance, we're working with LogRhythm, we're working with some of the fintechs.

And when you get to that level on a specific solution and you're jointly marketing those solutions, it makes a difference. So I think the answer to the question is, yes, I really see it along all four of those axes, Bill.

Q – Bill Smith– WM Smith & Co.: And then looking at the new logos in some of the business that you won, would you say that's a result of a direct sales effort or a partnership type effort?

A – Peter Altabef – Unisys Corp.: Really both. Most of our sales continue, at this point, to be direct. But I will tell you, one of our new very important sales in Latin America was a joint sales effort between us and LogRhythm in the security space. And the work we are doing in Palo Alto – with Palo Alto Networks around their Ignite Conference has been really very important to us.

So I think over time you're going to see a shift. I think you're going to see less dependency on our direct sales force, although that'll represent the majority of our revenue. But I think as we kind of expand this journey, what I call expanding our distribution pipe, becomes really important. We really want other people to be able to take the lead and reduce some of our SG&A costs relative to our sales. That's going to be important leverage for us going forward.

So it's relatively early stages there, Bill. But I think you're going to see that continue to evolve.

Q – Bill Smith– WM Smith & Co.: So this strategy is more partnership oriented on a go forward basis, versus building out your own internal sales force. Would that be accurate?

A – Peter Altabef – Unisys Corp.: It would be. But I would say, it's partnership in a very focused way. I mean we do, by the way, wonderful work with some of those more global partners. And that's very important to us. But I think what will drive our more focused solutions are these partnerships with the Cylances and the LogRhythms, with the Palo Altos of the world, with the fintechs, because there you're getting really, really into the very specific solutions.

One exception for that would be Dell EMC. We've done amazing work with them. And they're an excellent partner across the board. And then the expansion of our work with AWS and with Azure is also important. So it's good to see across the board.

Q – Bill Smith– WM Smith & Co.: Yeah. And, Peter, could you comment on the Red Hat IBM transaction? And any thoughts there in terms of the impact on Unisys and on the industry as a whole?

A – Peter Altabef – Unisys Corp.: Yeah. I think, probably three comments on that one, Bill. First, I wish IBM luck and good success on this. We think that any moves inside our industry that are successful tend to be good for the industry as a whole.

The second thing, I would say, is that while I wish them luck and success, it is also a distraction. And when you see movement in our industry, whether that is companies acquiring each other, whether that's companies splitting, whether that's companies like IBM making a big change like this, they tend to be a little distracted from the day-to-day efforts of their clients and winning new business and holding on to business. And we frankly welcome that too. We have not had that kind of distraction at this company and I think that has resulted in some of the success you are seeing at Unisys.

And then thirdly, I do think it points to the growing important of both cloud and digital. And you heard me talk, Bill, about our CloudForte solution in my remarks, that is really our next generation applications development and cloud and infrastructure platform. And I use both of those in the same sentence, because it's a combined platform. You're seeing DevOps, you're seeing dev security ops really kind of be the next generation of infrastructure services and of application services.

So putting those together as we have in our CloudForte solution is kind of the future. And I think you're seeing IBM react to that future as well. But we're not standing still and we're very excited about that CloudForte solution, and we have seen real success with it. The U.S. Army is just one of those, but that's a pretty big client. So I think those are the three things I see out of that acquisition.

Q – Doug Thomas– GAMCO Investors, Inc.: Hey, good evening. Got in under the wire. Great quarter, sound quarter. Congratulations. Just quickly a couple quick things on the ACV and TCV in the Federal business which obviously you mentioned early in the call face tough comps from a year ago. That's kind of – and as you rightly pointed out, it's a little bit irrelevant or misleading, but can you provide some color around those short-term contracts from a year ago, the large ones that went into the normal course of business and backlog and renewals this year. And as you did in putting some of the other stuff in perspective, can you sort of put some – put that in perspective?

A – Peter Altabef – Unisys Corp.: Yes. And it's a good opportunity, Doug, for me to make sure people understand that. We are pretty disciplined on these calls. And when we – we want to make sure we're consistent and we talk about these things over time and we've been pretty consistent in the sales numbers with ACV and TCV. TCV is total contract value expected over the course of a contract, ACV which we call annual contract value is actually the revenue we expect only in the first 12 months of the contract not the average contract value.

So what really happened was starting last year we began to have a nice tick up in our signings in Federal both ACV and TCV. This year has really been a very, very strong year for us in Federal ACV – in Federal TCV. And I will tell you the pipeline for our federal business both in Federal ACV and TCV is very, very strong. In fact, certainly in my experience at this company I have never seen anything like our Federal pipeline going into next year. So we're very excited about that, but frankly we're very excited about the business we've already signed. And we think that that will lead us into a good position of revenue growth in federal going forward.

The one item that I kind of did a little caution on was ACV in the quarter. What is that all about? Well, when you compare this to last quarter or last year, what you found last year was, if you go back to where we were, there was a big push in some of our large clients specifically Customs and Border Protection to get a lot of work done in the short term. And what CBP did was it actually delayed the decision making around long-term contracts, so that it could focus on getting short-term work done.

So our short-term work spiked heavily last year for those kinds of clients specifically in homeland security. That short-term spike increased the average – the annual contract value because it was short-term work. What you saw going into this year was after they made that change they were then to go back into normalcy and have

those competitions for the longer-term contracts. And we have been very successful. So we kind of followed last year's ACV spike in Federal with a TCV spike this year. So it's really all good news for us.

Q – Doug Thomas– GAMCO Investors, Inc.: Got you. I appreciate it. And I think sometimes people don't quite understand all the vagaries of the timing and so forth. I'll also – so Inder, since you mentioned this, the tri-annual pension negotiations, I just – the $125 million to be clear is on top of everything that you've accomplished in the last 12 months, I mean, and can – is that correct. And if that so, can you sort of – and I know you only want to do this once a year, but can you talk a little bit more broadly about the success you had in the last year and just whether you're more pleased than you thought you would, you've made more progress than you thought you might. And the other thing I wanted to ask was you had mentioned, I believe, on the first quarter call the fact that I think you'd put some hedges in place to position yourself for market decline. And I'm just wondering maybe if I have the opportunity if you could talk about how those have paid off for you?

A – Inder Singh – Unisys Corp.: Yeah. Thank you. That's a great question, so I'll sort of unpack that. Doug, if you think about the progress that we reported in our pension obligations and I'm talking about cash pension obligations at the end of 2017, and remember we do this once a year, isn't our normal practice. We reported an improvement of $390 million in our 10-year cash contribution obligation at that point in time.

And then over the course of the subsequent couple of quarters interest rates actually started to rise at least in the U.S. we didn't – hadn't really seen much of an improvement in gilts and other currency that we use to measure – interest rates we use to measure international plans. And so, on the U.S. side that $390 million was the result, not so much of rates rising at that point in time, but proactive actions that company took and I talked about those at the end of the fourth quarter. For example, we were able to successfully split one of our plans that grow down the administrative cost of that plan by something between $90 million to $100 million. We were able to top up another plan in our international and our European plans, so that no more contributions have to go into that one. We were able to freeze the third one, right.

So a number of actions were taken without the help of interest rates, in fact interest rates had gone the wrong way for us in that period of time. In June, because of the questions we were getting from investors and even on that earnings call, we were asked well what have the rising rates done for you now? And so we talked about an additional improvement of about $325 million. And this was a hypothetical, remember we don't do this valuation every quarter. But we did it in mid-year just to get a sense of where things stood.

This $125 million that I'm talking about today is a European plan related. It is – I wouldn't call it a total reduction, in a way it's really a deferral from the next 10 years to the following 10 years. And in the following 10 years it's about $200 million of payments, so beyond 2027. To me the time value of money is a key consideration here, because I look at that as that is well beyond our peak pension obligations. And we're executing a five-year plan as you know that we've talked about. So I'm glad that this is well beyond that. When I look at what could happen between now and then a number of things could happen. Interest rates could keep rising, markets could be volatile, any number of things that we can't control could happen.

But it doesn't mean that we're going to stop doing what we've been trying to do. So, this is the work of a number of people outside advisors and us that worked on making sure that for the next 10 years as we look at those chart that we show you virtually every quarter including this quarter, which we have not yet updated for everything. But as we updated it at the end of this year, you will see this improvement show up in that 10-year period. And yes, it will still be owed in the following 10-year period, but it gives time for rates to rise and other things to begin to help us. Does that make sense?

Q – Doug Thomas– GAMCO Investors, Inc.: Yeah, no, that's great. So you would basically as with the earlier changes, it's a straight line basically over 10 years. And then we'll put it in after 2027 same way from $125 million to $200 million.

A – Inder Singh – Unisys Corp.: We'll show you at year end the exact break up five years by five years. Over the next 10 years it actually steps down from the first five years to the second five years. I don't think we're planning on putting a 20-year pension plans right out there. It would be really hard to predict that.

Q – Doug Thomas– GAMCO Investors, Inc.: And then with regard to the markets in general. You mentioned volatility. The S&P, we had this decline, we had this rapid recovery with the significant 500 point move yesterday. Obviously, a lot of the companies that I follow small and mid-cap companies are still struggling. I think half of the S&P is still at 52 week low. So I don't know exactly where you've invested, but the moves that you've made in terms of managing market risk and volatility in the last year, how has – how do you faired with those?

A – Inder Singh – Unisys Corp.: Yeah. So we haven't done that valuation. We're going to do that at year end and we only do it as of 12/31. So it depends on where the markets are frankly on that day. But if you think about, maybe trying to answer your question in a different way, our investments are across equity and fixed income market. And to the extent that equity markets perform or at least one of the two markets performs we see generally a benefit.

Of course if equity markets go the opposite direction then we see what everyone else sees as well. So it becomes difficult to really predict that and that's why I'd rather wait 12/31 to say, all right, where are the stock markets, you're right, they went down, they seem to have recovered, but it's day by day. What I – what we did see, for example, in our June quarter was some benefits from our fixed income portfolio. So volatile markets don't always mean that it has a direct one to one correlation. If the spreads on fixed income credit begin to help us that is also a positive for the pension plan, but, yes, we do need equity markets to perform in the right way.

Peter Altabef, CEO

Okay. Well, thanks everyone, Doug, I want to thank you for those questions as well. We're excited about the ongoing momentum that you are seeing in our go-to-market efforts and we're looking forward to continuing to execute toward our full-year goals over the rest of 2018. We also look forward to speaking with you in the next quarter.

With that, on behalf of Inder and Courtney and myself, thanks very much. And we'll be with you again to discuss full-year results. Thanks, again.