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Unisys Corp. (UIS)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Unisys Corporation's Second Quarter 2021 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this conference is being recorded.

I would now like to turn the conference over to Courtney Holben. Please go ahead.

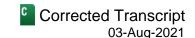
Courtney Holben

Vice President-Investor Relations, Unisys Corp.

Thank you, operator. Good morning, everyone. This is Courtney Holben, Vice President of Investor Relations. Thank you for joining us. Yesterday afternoon, Unisys released its second quarter 2021 financial results. I'm joined this morning to discuss those results by Peter Altabef, our Chair and CEO; and Mike Thomson, 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 morning to guide our discussion as well as other information related to our second quarter 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. The 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 post-retirement, debt exchange and



extinguishment, 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. For more information regarding these metrics and related adjustments, please see our earnings release and our Form 10-Q.

From time-to-time, Unisys may provide specific guidance or color regarding its expected future financial performance. Such information is effective only on the date given. Unisys generally will not update, reaffirm or otherwise comment on any such information 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 A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

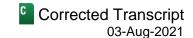
Thank you, Courtney, and good morning everyone and thank you for joining us to discuss our second quarter results. We achieved double-digit year-over-year revenue growth and significant year-over-year improvements to profitability and cash flow. We executed against our strategy for sustainable growth and margin expansion that we described during our January investor presentation, which was enabled by our strengthened balance sheet.

Progress in the quarter against our key strategic goals included advancing our DWS transformation, broadening our cloud capabilities and expanding our enterprise computing solutions. I would note that Enterprise Computing Solutions, or ECS, is a new name for the segment previously referred to as ClearPath Forward. This is a change to the segment name only, not to the ClearPath Forward product line.

Mike will provide detail on our financial performance and accomplishments, but first, I will give some insight into the business. Starting with Digital Workplace Solutions, or DWS, our goal has been to transform this business to focus on higher growth and higher-margin solutions through broadening our offering portfolio and increasing our focus on experience solutions through a build/partner/buy approach. Our recognized leadership position in the DWS market, supported by our InteliServe platform, world-class delivery capabilities and NPS scores consistently and significantly above IT services averages positions us to achieve these goals. The second quarter continued our work, laying the foundation for a sustainable growth through execution against this strategy, with a focus on maturing and enhancing our solution portfolio.

Speaking of organic developments, we are building out additional solutions to support cloud-native virtual desktop interface within workplace as a service and are hiring new consultative resources to expand our transformation

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services capabilities, all within DWS. We also continue enhancing the automation and artificial intelligence capabilities in our solutions, including completing the migration of all service desk clients to our cloud contact center platform as of April, allowing for increased usage of conversational AI solutions in voice and chat, an expanded deployment of all of our InteliServe automation capabilities for these clients. Automation, as a percentage of service desk ticket volume, increased 500 basis points sequentially and 300 basis points year-overyear in the second quarter.

With respect your partner developments, we enhanced our modern device management capabilities, including by entering into several new partnerships during the quarter. We are already leveraging these new partnerships to create more powerful end-to-end solutions for our clients.

We also acquired Unify Square, a unified communications as a service or UCaaS company, with a focus on seamlessly managing, securing, and optimizing enterprise communications and collaboration, including through partnerships with companies such as Microsoft and Zoom. Unify Square broadens our UCaaS portfolio, which is projected to be one of the fastest-growing portions of the DWS market. The acquisition also enhances our experience solutions and expertise, which improve the productivity of clients' digital workplaces and deliver higher value than our traditional DWS offerings.

Finally, we also see significant cross-selling opportunities as a result of this transaction, especially since the two companies have only one shared significant client. For DWS, during the guarter, one of the largest healthcare providers in the US awarded us a contract under which we will proactively measure and improve user experience. Increased productivity of field services and service desk personnel, decreased service tickets, and enhanced device and software management with real-time data. A key differentiation in our proposal was our holistic approach to device management and proactive experience capabilities.

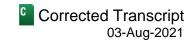
We also signed a contract with a consortium of US-based energy companies to provide a full range of IT solutions, including digital workplace, applications support, and cloud infrastructure with security oversight and protection.

Moving to the C&I segment, our emphasis is to grow cloud in our targeted markets. We believe our established credentials, CloudForte IP-led platform and embedded security solutions position us to achieve this goal.

During the second quarter, strong revenue growth continued in C&I, with cloud revenues specifically growing 28% year-on-year. In July, we completed a new release of capabilities within the CloudForte platform, with improved automation and standard repeatable approaches to increase speed and reliability of hybrid cloud deployments.

Security is embedded with cloud-capable Stealth and Al-enabled threat protection and detection and faster remediation. The new capabilities also allow for quicker application releases and advanced Kubernetes and container deployments. By focusing on a secure transition to the cloud, we differentiate ourselves with clients, including a number in the US public sector, as well as with third party advisors and industry analysts. In addition to existing partnerships with Microsoft Azure and AWS, we recently announced joining the Google Cloud Partner Advantage Program as a Google Cloud and Google Workspace reseller partner.

With respect to client wins, during the guarter, we expanded monetization and security work at the Georgia Technology Authority and with the Virginia Information Technologies Agency, both highlighting our opportunities for add-on work and our continued success with US state government clients. We also signed a contract with the State of Wisconsin that spans both our C&I and DWS segments to provide a cloud-based contact center solution that will improve the experience of how citizens interact with government.



Turning to ECS, as I noted, this refers to the segment previously referred to as ClearPath Forward. Our near-term goal for this business has been to grow revenue through expanding and enhancing ECS services, while maintaining the stability of license revenue. We believe there is meaningful opportunity to expand ECS services, given our relatively low penetration, combined with our clients' increasing desire to migrate to cloud and hybrid environments and for a seamless application set that works across these architectures.

Clients also need help managing application workflow creation and orchestration in these environments. We are uniquely positioned to help with all of this given our embedded IP. We recently released a new version of ClearPath Forward with enhanced capabilities and functionality. The new release allows clients to enhance existing ClearPath Forward applications using Python and enhances interoperability with other environments. It is – also uses enhanced security features, including expanded multi-factor authentication and mobile device facial recognition and fingerprint identification.

Our partnership with Microsoft Azure offers another avenue for growth within ECS as clients migrate to ClearPath Forward cloud and hybrid environments. We recently went live with ClearPath Forward for Azure with a public sector client and we are in discussions with a number of additional clients.

We're seeing early stage traction with ECS services expansion, with revenue from these services up 2% year-over-year. License revenue in the quarter was also strong, helped by higher volumes than anticipated, which Mike will discuss later.

We signed a contract with one of the largest financial services institutions in Brazil during the quarter for consulting and application services for their ClearPath Forward and related application environment, including development and modernization relating to the integration of more than 90 systems to support the institution's mortgage processing operations.

Moving to our go-to-market metrics, our efforts across segments resulted in total company TCV being up 50% year-over-year in the second quarter and 24% sequentially. Total company pipeline was up 2% sequentially, though down 3% year-over-year. However, as of the end of July, pipeline was up 8% versus the end of the first quarter this year and 2% versus the end of the second quarter last year.

We continue to be recognized for our market leadership in important areas of the business, including being named a leader for managed security services in Australia, Brazil and the US, and a leader in technical security services in the US, all in ISG's Provider Lens for cybersecurity solutions and services.

In late-July, we launched a new corporate website, which we encourage you to visit. It is faster and more user friendly, giving visitors a richer experience and an easier way to learn about our solutions. We expect the new website to help visitors gain a deeper understanding of the outcomes our capabilities deliver and to lead to additional opportunities for us.

And finally, with respect to workforce management, our workforce management initiatives such as up-skilling, rotations, work from anywhere flexibility and enhanced recruiting efforts have been benefiting us.

Although total company last 12 months' voluntary attrition was 12.9% in the second quarter versus 10.4% in the first quarter, the second quarter level was 210 basis points lower than the prior-year period and 480 basis points lower than the pre-pandemic level in the second quarter of 2019. Our attrition levels have not impacted the ability to meet client demand, in part due to the workforce management initiatives I highlighted.



Our open positions filled internally increased 13% since year-end 2020. Applicants for open positions increased 30% sequentially. Our time to fill positions decreased 25% since year-end 2020 and referral-based hiring has increased significantly relative to last year.

So, in conclusion, we are energized by the progress we're making toward the goals we laid out at the beginning of this year. I'd like to thank our associates for their continuing efforts. Those efforts not only include with respect to clients, but also include with respect to bringing on friends and others that they know into this company, which shows quite a lot about our existing associates' views of this company.

With that, I'll turn the call over to Mike to discuss our financial results. Mike?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good morning, everyone. In my discussion today, I'll refer to both GAAP and non-GAAP results. As a reminder, reconciliations of these metrics are available in our earnings materials.

As Peter highlighted, we made continued progress in the second quarter against many of the key strategic goals that we outlined at our Investor Day earlier in the year, while also achieving strong financial results, including double-digit year-over-year revenue growth and significant year-over-year improvements to profitability and cash flow. Peter covered much of the progress on our strategic goals, so, I'll focus more on the financial accomplishments including the fact that we were free cash flow-positive for the quarter.

Overall, our second quarter results were in line with or slightly ahead of our internal expectations and we met or exceeded consensus estimates on all key metrics. Revenue grew 18% year-over-year and 1% sequentially, supported by revenue growth in each of our segments. DWS revenue grew 10% year-over-year, driven in part by growth in revenue from our new proactive experience solutions and the early results of the new partnerships that Peter mentioned. Additionally, this was the segment and the quarter most impacted by COVID last year, so the post-COVID recovery also contributed to year-over-year revenue improvement.

DWS revenue was also up 4% sequentially. Our emphasis within C&I on cloud work for our targeted sectors is also yielding positive results, demonstrated by revenue growth for the segment up 10% year-over-year and 1% sequentially.

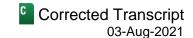
Within C&I, cloud revenue was a key driver of growth, up 28% year-over-year in the quarter. As Peter noted, the segment formerly referred to as ClearPath Forward has been renamed Enterprise Computing

Solutions, or ECS. I would note that ClearPath Forward product name is unchanged, but we'll refer to the license revenue from these and other solutions as ECS license revenue.

ECS segment revenue grew significantly year-over-year, up 40%, and showed a 1% sequential increase. The growth was driven in part by higher license revenue than anticipated based on higher volumes than projected in the quarter. Additionally, ECS services revenue grew 2% year-over-year.

The second quarter represents the strongest year-over-year revenue growth that we anticipate for 2021. As we've previously noted, we expect ECS license revenue to be split 55% and 45% between the first and second half of the year with the third quarter assumed to be the lightest of the year.

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As a reminder, the prior year first half, second half split was 40% and 60%, with 40% of the full-year segment revenue coming in the fourth quarter. This year's renewal schedule is much more evenly distributed with significantly less reliance on fourth quarter signings.

Total company backlog was \$3.3 billion as of the end of the second quarter relative to \$3.4 billion as of the end of the prior quarter. Of the \$3.3 billion, we anticipate \$375 million will convert into revenue in the third quarter. The sequential decline in backlog was attributable to a delay in a signing of a large DWS contract that we expected in the second quarter and ultimately was signed in July.

Our plan calls for go-to-market strategic initiatives that Peter highlighted to begin expanding the pipeline and improving our backlog over the coming guarters. As we indicated in January, we expect our year-end backlog to show positive growth year-over-year. The seasonality trends I referenced regarding revenue have been anticipated, and overall, we're on plan for revenue for the full year 2021. As a result, we're reaffirming our full year guidance range of 0% to 2% year-over-year revenue growth.

Moving to profitability, the operating efficiency enhancements that we've undertaking, as well as our shift to higher-value solutions, drove significant year-over-year improvement to non-GAAP operating profit margin in the second guarter. This metric was up 950 basis points year-over-year to 9.7%, supported by year-over-year improvements to gross margin in each of the segments. DWS gross margin increased 840 basis points year-overyear to 15.2%. This was helped by higher margins earned on some of the newer proactive experience solutions and increased automation.

Our operational efficiency improvements, such as reducing our real estate footprint and refining our workforce management strategy, as well as post-COVID revenue recovery, also contributed to margin increases. DWS gross margin was also up 210 basis points sequentially.

C&I gross margin improved 730 basis points year-over-year to 12.5% and was up 280 basis points sequentially. helped by higher cloud revenue and the same real estate and workforce management cost efficiencies that I noted for DWS.

ECS gross margin increased 1,430 basis points year-over-year to 61.3%, helped by flow through of strong ECS license revenue, driven by the renewals and volume increases that I noted earlier against a relatively fixed cost base. ECS gross margin was roughly flat sequentially with both periods over 61%.

As I've noted, our margins were aided by the cost efficiencies and automation that we've been implementing. I've highlighted in previous discussions that pre-reinvestment, we were targeting \$130 million to \$160 million of run rate savings exiting 2021. And as of the end of the second quarter, I'm happy to report that we've completed all the actions necessary to achieve this target and our expected run rate savings exiting 2021 is at the high end of that range. Approximately \$35 million of the annualized actual savings was included in the second quarter results and we believe the full amount of savings will be realized by the end of next year.

As Peter noted, our workforce management initiatives have been very effective and helped drive the total cost of labor as a percent of revenue to continue to decline. The metric was down 80 basis points sequentially in the quarter even factoring in retention-focused salary increases that we implemented during the period.

During the second quarter, we also successfully achieved our goal of removing \$1.2 billion in gross pension liabilities from the balance sheet. In conjunction with the final actions to achieve this, we recognized a non-cash

settlement charges of approximately \$211 million or \$0.0237 (sic) [\$2.37] (00:23:02) per diluted share, which was the only reason that our net loss from continuing operations was \$140.8 million or \$2.10 per diluted share.

The improvements to non-GAAP operating profit also flowed through to adjusted EBITDA, which increased 125% year-over-year to \$94.4 million. Adjusted EBITDA margin increased 860 basis points year-over-year to 18.2% and non-GAAP diluted EPS increased significantly to \$0.68 from a loss of \$0.15 in the prior-year period.

CapEx for the second quarter was \$23 million, down 35% year-over-year, reflecting the continuation of our capital-light strategy and our focus on integrating best-of-breed solutions to enhance our client offerings and help optimize software development costs.

The margin expansion and CapEx reductions also contributed to significant year-over-year improvements in cash flow, resulting in us being free cash flow and adjusted free cash flow positive for the quarter. Cash from operations improved \$56 million year-over-year and was positive at \$42 million. Free cash flow improved \$69 million year-over-year to a positive \$19 million, and adjusted free cash flow improved \$92 million to a positive \$55 million. These metrics were all up significantly on a sequential basis relative to negative cash flow for each metric during the first quarter.

As we look at the rest of the year, we're projecting our third quarter non-GAAP operating profit margin to be roughly in line with the prior-year period. Fourth quarter non-GAAP operating profit margin is anticipated to be the strongest of the year, though lower year-over-year in part due to the ECS license renewal timing I mentioned earlier.

As with revenue, the seasonality trends in profitability were expected, and we're on plan overall for the year with respect to non-GAAP operating profit margin and adjusted EBITDA margin. As a result and in addition to affirming revenue guidance, we're also reaffirming our guidance ranges for these two metrics at 9% to 10% and 17.25% to 18.25%, respectively. We're also forecasting our CapEx spend for the year to be lower than initially anticipated and now is expected to be approximately \$115 million.

Other full-year cash flow expectations are the following: we anticipate cash taxes to be approximately \$45 million to \$55 million. And we expect restructuring payments to be approximately \$65 million to \$70 million. Additionally, as we noted in January, working capital is currently at a run rate use of approximately \$20 million to \$30 million, which we still believe will improve over time. As a result of all of this, we are projecting to be free cash flow positive for the full-year 2021.

To wrap up, I'd like to echo Peter's enthusiasm about the progress we're making in just two quarters into our refresh strategy, which we've been able to implement as a result of our improved balance sheet. We're appreciative of the hard work that our associates have been putting in to help drive this transformation. And we look forward to continual successful execution over the remainder of the year.

With that, I'd like to turn the call back over to the operator to open up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question today will come from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Good morning and great results here. Really kind of a breakout quarter, I think, for Unisys. So, at a high level, I thought maybe we could discuss – sounds like there was a lot of good strong new deal activity. If you could maybe parse what that maybe kind of as a result of post-COVID reopening versus maturity in the product set. And then I have a couple follow-ups. Thanks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah, Joe. This is Peter. Thanks very much for being on the call and for the question. When we laid out our plan in early January to the investor group, including you, and thank you for attending that, we really laid out the year in kind of two sections. We knew that we had just reorganized the company on January 1 effectively. We also knew that as part of that, we were bringing in a number of executives that would help us in specific business units and in fact lead several of the business units actually. And so, that all took place.

With that change, we thought that the momentum around new sales and new opportunities would really begin to pick up in the third and the fourth quarter. And so, what you're seeing in terms of the pipeline beginning to grow in July, what you're seeing in terms of the TCV beginning to grow in the second quarter is really kind of momentum going into the back half of the year.

Now, we've already had strong momentum in terms of our cloud business. And you could see, once again, the cloud portion of Cloud and Infrastructure grew 28% in the quarter for us year-over-year, which we think is a very strong number for us. But importantly, we think that Digital Workplace Services business is going to get increasing momentum in the second half of this year and going forward in next year and the year after. So, I think what you're seeing is we're being invited to more deals to larger deals. The strategy, the capabilities we've laid out in DWS are being appreciated in the marketplace with third-party advisors, as I mentioned, and also with existing clients and with prospective clients.

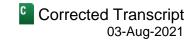
So, we're really kind of getting momentum for the second half and for next year with respect to sales. As you know, it will take a while for sales to translate into revenue, but that's always been our plan. And that's what we laid out in January.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah, Joe. And if I could just add one element to that, as I noted in my remarks as well, a very significant new logo DWS client was signed in July, right? So, we talked about the backlog slightly down sequentially, but again, we were expecting to sign that particular contract. But it's a great proof point to the momentum that Peter was talking about, and a pretty big significant new logo from our perspective that we're really excited about.

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So, as we talked about last quarter, we were spending a lot of Q2 with our go-to-market messaging. And again, to reiterate Peter's point around the dialogues that we've had with industry analysts and the like, in regard to that go-to-market messaging, it really seems to be resonating from our perspective, and we're seeing that sequential increase in the pipeline as well.

Joseph Vafi

Analyst, Canaccord Genuity LLC

That's great. And then one on C&I, I know you mentioned a couple times the 28% growth in the cloud piece. Clearly, if that kind of pace continues for a while, it's going to accelerate the whole segment. I was wondering how big potentially that piece of C&I is now just to get a feel for as cloud continues a strong uptake, what it could mean for the overall segment acceleration.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah. So Joe, and just correct me if I'm wrong, Mike, but I think that piece is 31% (sic) [36%] of total C&I revenue at this point. Is that right?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

That's correct, Peter.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Got it. And then just one final one on your enterprise computing segment, it's clearly strong. And it seems like you've had more pull forward on renewals than delays in renewals over the last couple of years. Wondering if you could kind of just give us a feel in this segment what – it was really strong clearly, probably a lot of that was renewals, but ex-renewals, how much was there kind of just kind of poor growth excluding the ClearPath renewals and other pieces of enterprise computing? Thanks a lot, and great result.

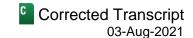
Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah. So, thank you, Joe. So, let me take the beginning of that, Mike, if you take the end of that. And so, again, as we put the performance of ECS in the context of what we were expecting and what we received, the expectation continues to be during the course of the year and for the next couple of years that the growth we're going to see out of ECS will be largely from the services side of that ledger, with the licensing side predominantly renewals. That's – if you noted in my remarks, I said that's the near-term plan. I think that with the changes we've had with the ECS team, with some leadership really reviewing the art of the possible in ECS in the mid to longer term, we're looking at what are the opportunities we have to grow whether it's a SaaS pricing or a straight licensing, more of the technology piece of that business. We don't see that in the near term, and it's still under development for the mid to long term. So, that – so more to come on that. Still very much a work in progress.

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We do expect the momentum we saw in the quarter, which was a 2% increase in services, to increase over time. And as I said, in the near term, that's where we expect the majority of the increases to come from. Mike?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Look, I certainly would echo that. That's part of the strategy here. I think we mentioned in Investor Day, Joe, that we only had about 13% penetration on the services side of the coin. So, we do see some real upside and potential in regards to that continued services growth.

As you know, the renewal schedule is lumpy, right? And last year was really very heavy in the fourth quarter, not necessarily that they were delayed or accelerated, it's just that's when the renewal schedules kind of indicated that those contracts would be signed. In this case, the second quarter was a strong renewal schedule quarter from our perspective. We've got good line of sight into that. So, we obviously know when those things are going to anticipate.

And the lumpiness is really whether something slips a week or a month or gets accelerated a week or a month and how that impacts any given quarter. But overall, our retention rate on those clients is at 95-plus-percent and we're really happy with that. We've done a lot of work, as you know, to get that particular license cloud enabled, and we think that that's going to drive additional volume as well. So, right on plan as we've expected to be, and as Peter noted, really focused on the services side of that segment for growth.

Joseph Vafi Analyst, Canaccord Genuity LLC	C
That's great. Thanks, guys. Terrific.	
Peter A. Altabef Chair & Chief Executive Officer, Unisys Corp.	Д
Thank you, Joe.	
Michael M. Thomson Executive Vice President & Chief Financial Officer, Unisys Corp.	Д
[audio gap] (00:35:02) Joe.	
Operator: And our next question will come from Jon Tanwanteng with CJS Securities. Please go ahead.	
Jonathan E. Tanwanteng Analyst, CJS Securities, Inc.	C
Hey. Good morning, guys. Very nice quarter. My first one, just on the DWS contract that pushed out into C you disclose how big that was?	13, can

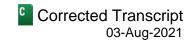
Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.



We don't disclose the general size of those contracts. I'll say it was above \$50 million and below \$100 million in TCV.

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Jonathan E. Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Fair enough. And just to clarify, on the ClearPath services, where you saw the growth, was that from new customers or is that existing customers that have expanded their agreements with you?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah. That's the existing, Jon, I mean...

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

So, I...

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

I'm sorry, Peter.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

No, go ahead.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

I was going to say, Jon, our focus in the services are largely based on our existing client base. And that's where we have an opportunity for penetration. And that's where we think we've got, obviously, long-standing client relationships, where we're on average just under 20 years relationships with those particular clients. And that's our primary target market for that services growth.

Jonathan E. Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Got it. About a month ago, one of your large competitors had signaled weaknesses in one of its segments. I was wondering is that something that has any read through to you, either negative or positive. It seems like you're on track [ph] into internal (00:36:30) expectations. So, I'm wondering if there's any correlation or impact on your business at all?

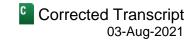
Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah. No, Jon. I don't see a direct correlation. Again, we are – we like it when our industry does well. And so, we don't celebrate when any of our competitors has a bad quarter or misses any of its numbers because we think the health of the industry is good for us. I will tell you that – and you know from our strategy in January that we've reiterated on these quarterly calls, it is our focus to really double down in some of the areas that not all of our competitors are focusing on or that our competitors are focusing less on than they did in the past.

So, we have a whole segment on Digital Workplace Services. And that's a very significant part of our company. DWS is now 28% of [ph] our revenue (00:37:33), we expect that to increase over time.

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In the cloud and infrastructure space, we are really doubling down on the public sector of cloud. So, I think over time, you might see us making advances in our areas of focus that are greater than increases in market growth. And it is certainly our intent in those areas of focus to grow faster than market and effectively take market share away. So, that's our plan.

Jonathan E. Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Great. And thank you for that. Last one for me, I appreciate the color on the operating margin by quarter going ahead. I was wondering, though, if you could – if it was possible for second half operating margins on an adjusted basis to be greater than the first half, even with ECS being a little bit heavier in the first quarter – in the first half, excuse me.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Peter, I'll take that if that's okay. Jon, I think really a tough compare especially as I mentioned we had 40% of ECS license revenue for the full year coming in the fourth quarter, and that's at 60% margins. So, that's a really tough item to deal with. But as I also mentioned, we'll see the benefit of the continued execution against the savings initiatives that we've put in place. We saw about \$35 million of that come through in the quarter, and we'll continue to see that compounding through the rest of the year. So, again, I think we'll be right on plan in regards to that, hence, the reaffirmation of that guidance and I think that's a pretty consistent view from us.

Jonathan E. Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Great, thanks, and great quarter again, guys.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Jon.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Jon.

Operator: And our next question will come from Rod Bourgeois with DeepDive Equity Research. Please go ahead.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

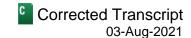
Great. Hey, I want to talk about the workforce management. Given all of the supply challenges occurring in the industry, it was good to hear your metrics and your progress on the workforce front. So, I wanted to ask if you can talk a bit more about the investments and the leadership that you're applying to the workforce management, and if you have an outlook for where metrics like attrition will be going in the next several months given some of the supply and talent crunch that's happening around the industry. Thanks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

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Yeah. Rod, this is Peter. I'll probably start on that, and thanks for the question. I think it's fair to say workforce management is taking up a very significant part of our leadership's attention from our President and COO, Eric Hutto, to Katie Ebrahimi, our Chief HR Officer, really up and down the entire leadership chain. And what I mean in leadership, I mean, everyone who manages more than three people, because this is all about how do we attract and how do we retain folks.

Some of the data that I gave on my remarks and I'll repeat and elaborate on some of it. Our last 12 months of voluntary attrition for the quarter was at 12.9%. That was an increase from 10.4% for the last 12 months for the quarter before. But that's somewhat seasonal. You pay bonuses in the first quarter and you historically have a higher second quarter of attrition. So, that's not related to COVID, and it's not necessarily related to the – what is called in the industry the war on talent. That 12.9% number for us is lower than the level it has been in either 2020 or much lower than 2019, which was the pre-pandemic number.

So, the bottom line is we think we are managing to the slightly higher sequentially numbers but it's not – it's – we don't expect this to be an easy ride. We expect to have to do more and more to retain and attract talent. And that's actually the right long-term mechanics for the company. We think it's the right long-term mechanics for the industry. I mean, IT services as an industry is expected to have, I think, 4.3 million unfilled vacancies by 2030. So, while some of the current focus might be, oh, people are moving around more and there's an increase in demand because of COVID, that's not the big driver long term. Big driver long term 2030 is this is a growth market. We expect to be a growth company. Our competitors expect to be growth companies.

And although we expect what we call non-linear growth, which is we don't expect to be hiring people in the same proportion as revenue going up, we are still very, very dependent on bringing in great people. So, whether that is a focus on DEI issues, whether that's a focus on ESG issues, whether our people care about, whether it's about career development, which we are massively increasing our view to let associates understand what kind of careers they can expect, what they have to do from a training and certification standpoint to make their careers actually happen, making sure they've got an understanding of where they are and where we believe, as a leadership team, their development is.

This is really an all hands on deck focus to create a people environment that is attractive and that people want to work for. So far, I think we have been successful with the focus on so far, but this is going to be an effort every single day. And I think it's going to be an effort for the entire industry every single day. I'm just glad the wake-up call occurred now and not in 2030, by the time we have 4 million unfilled jobs.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

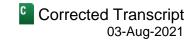
Great. Thanks. Thank you. And you're clearly making progress in your three major focus markets. At the same time, you have the sub-segments of public APAC and Latin America, where your growth right now is relatively weak. So, I wanted to ask if you're positioning for an improved growth in those segments and what the opportunity set is there to get the growth in those areas up to par.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yes. So, let's just take those geographies one at a time. US and Canada is clearly the strongest geography we have, I would say, for the year. You had a stronger growth in EMEA this quarter, but that was largely because of ECS wins. I think we're making great progress in US and Canada. That has been, if you will, almost a test bed for some of our new solutions and we think that test bed is working out well. We also have, as you know, a really

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good tax position, Rod, in the US and Canada. And that makes it more advantageous for us to, kind of, focus first there.

When we look at the other regions, obviously we had a lot of success in EMEA this – for this quarter. And really for the year, we expect some good progress in EMEA, although not obviously at the rate of this guarter, but we expect good progress in EMEA over the course of the year.

APAC and Latin America are a little different. And we really kind of have to look into those areas. For APAC, we expect this to be a slight down year. But that is mostly because of some ECS licensing issues. We had a very large ClearPath Forward license renewed in 2020. So, that is – that really is causing unfavorable compares in Asia Pacific. We expect Asia Pacific to be flat or down very, very slightly without that compare.

In Latin America, we expect revenue to be up this year, [excluding ECS licenses]. So, again, we expect some success in Latin America. So, that's kind of how we think of geographies, with our focus right now, where our primary P&L is based off those solutions whether it's DWS or whether it's C&I or whether it's ECS.

What we're really doing is allowing those teams to run as a business and allowing those teams to focus in the geographies where they believe they will be most successful, and then supporting them in those geographies. It's heartening to see that as they have done that, they have really found countries and areas in each of the regions, where they think we have advantages. And we think that our global growth will be better because of that. But it's not random. It's really targeted growth that is targeted based off each of those solutions in each of those regions.

Mike, further on that please?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah, I'd love to. I think you hit basically all of the points, Peter. The only thing, Rod, that I would add is we've seen some good post-COVID recoveries specifically in Asia Pac and actually was up roughly 10% in the quarter. So, our solutions are, I'll say, regionally agnostic, right? So, they apply across the board and can be applied to global companies. So, I don't think it's directly attributable to which region we're approaching. I think Peter hit it. Our target here in public sector specifically in US&C is just really advantaged from our tax positioning.

So, it makes sense to attack that market first, get that proof point, and then roll that out to some of these other markets. So, I don't - it's certainly not a strategic viewpoint to say we're not addressing these other markets at the same time. And so, again, we have a little heavier, I'll call it, [ph] BPS (00:48:22) presence in Asia Pac and that's still slightly impacted from the COVID perspective. But other than that, we're - everything else that Peter gave you, I think, was spot on.

Rod Bourgeois Analyst, DeepDive Equity Research, LLC	C
Perfect. Thanks, guys.	
Michael M. Thomson Executive Vice President & Chief Financial Officer, Unisys Corp.	Α
Thank you, Rod.	

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

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Thanks, Rod.

Operator: And our next question will come from Ana Goshko with Bank of America. Please go ahead.

Ana Goshko

Analyst, BofA Securities, Inc.

Hi. Thanks very much. So, first of all, I have a couple of questions on the cost side. So, it's good to hear that you have achieved the high end of the cost save target. Could you talk about the areas for reinvestment and kind of the magnitude of reinvestment of those savings?

And then, secondly, you've given the operating margin outlook for the second half, so, I guess, third quarter, sort of, in line with second, fourth quarter down year-over-year, but it sounds like that's segment related. Could you talk about if you're seeing or feeling any inflationary impacts and in what areas and to the degree that you may be shielded this year from, kind of, contracts, if any of that might creep into next year, as per the forecast that you've got right now?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah. Ana, so thank you for those questions. Mike, let me just take a couple quickly upfront and then I think you got most of it.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Okay.

Peter A. Altabef

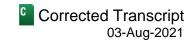
Chair & Chief Executive Officer, Unisys Corp.

For the first of your questions, which I think was about reinvestment, as we said in January, and we're very consistent with this, we think we will be reinvesting about 30% of the savings or the efficiencies from that program into the business. And that 30% number, that can go up or down based on opportunities, but we think that number is still largely correct.

With respect to the operating profit numbers, and in fact all of our numbers, what you're hearing from us on this call is us reaffirming our full year numbers. So, there certainly has been uncertainty in the year, but we believe that we are within the ranges that we laid out in the beginning of the year.

And then finally, with respect to efficiencies and, kind of, non-linear growth, we are expecting that really in each of the business units. So, we're really asking each of those segments to make sure that we are going to be able to increase margins and that comes in part from non-linear. I mentioned earlier in my call that when we think of DWS, we should – I'm hopeful that you hear InteliServe, which is our platform for driving DWS offering.

Now, InteliServe has some of our intellectual property. It has more of our intellectual property after the acquisition of Unify Square, which we're incorporating some of the great capabilities into the InteliServe platform. But it also has third-party intellectual property that we are integrating into our platform. Same thing for CloudForte in the



cloud world. And in fact the same thing has been true for a long time for ClearPath Forward, which although the majority of it is our IP contains third-party IP as well. So, we are focused on making sure that we have, if you will, non-linear growth.

And with respect to the numbers that comes across our labor as a percentage of revenue. We had the lowest percentage of labor versus revenue this quarter at least through 2016 and I'm not sure that we have – we even kept that statistic before 2016. And we expect to drive that percentage down in each of the next several years. So, I hope, Ana, that was a quick oversee about some of what you asked. And then, Mike, over to you.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Sure. Thanks, Peter, and thanks, Ana, for the question. Just a couple other things, I think Peter gave you a good synopsis on kind of our build/partner/buy and where that investment is coming or going to. The other elements that I would note to you is there's investments beyond that in the go-to-market resources as an example to support growth. We talked a little bit about the investment in our associates, getting them certified and trained allowed us to ultimately fill 39% of our [ph] recs (00:53:12) internally because we're investing in those people.

So, all of that plus one of my remarks was about the fact that part of the protection of the resource base that we have. We've increased some salaries in certain regions to, again, support the organization and really invest in the people. So, it's not just a capital investments in the context of IP and software and development of things, it's also about the resources, scaling of those resources, which is also protecting our associate base from poaching and other things. So, that's pretty helpful.

You've got it right, Ana, on the margin side, Q3 being in line with Q3 of the prior year, and Q4 actually being a growth quarter from our perspective against the sequential growth, but not necessarily against the prior year due to the license renewal structure that I mentioned earlier.

I don't think we're going to see a whole lot of impact from our perspective, from an inflation point of view, which I think was the last part of your question. Our contracts are usually three to seven years. So, they're somewhat protected in regards to inflation.

And frankly, I think what we're seeing from our pipeline is a willingness now to get out and spend. And I think people are really reinvesting into their infrastructure, clearly with a hybrid workforce being a primary focus, obviously cyber being a primary focus, and digitization being a focus. So, we feel pretty good about where we're positioned and don't expect to see inflation really cause any oscillation in our projections for next year.

Ana Goshko

Analyst, BofA Securities, Inc.

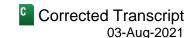
Okay. Great. Lucky you. I wish I had those – your contracts on my cost base. So, second question, just on the M&A environment, could you just characterize what's that like for you right now with regard to opportunities and activity for additional tuck-ins? And in particular, with the positive free cash flow outlook and the low interest rate environment, does that further, kind of, embolden or enable you on the M&A front?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Yeah. Ana, that's a great question. I think I would categorize the M&A environment as expensive for buyers. And, of course, we are a buyer in this market, but we're also acknowledging that this is an expensive market for buyers.

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So, we're being very careful. We would always be careful in an M&A environment, but I think this current pricing environment makes everybody, or at least makes us look two or three times and make sure we have the right acquisition.

Unify Square is a great example of that. It was an expensive acquisition in the term of purchase price, but it fit our strategy perfectly. And the capabilities that it brings to our Digital Workplace Services team are immediate and apparent that's coming through in terms of the pipeline, that's coming through in terms of new clients. We only share one significant client. So, the cross-selling opportunities are also immediate. And the team there is a team that is working really well with our existing team and certainly is bringing additional skills.

Beyond Unify Square, as I mentioned on the last earnings call, we have reviewed over 200 other opportunities. I can tell you that we have several opportunities that we're looking at. They are in that tuck-in up - in the tuck-in size. And they are largely currently in the Digital Workplace Services space and in the cloud space. Those are the two areas that we're really looking at. Those include capabilities. Those include consultants and advisory assistance in those spaces. We feel good about the opportunity to find some of those, but they are really needles in the haystack.

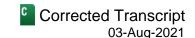
And so, when we find them, is very much kind of – we'll find them when we find them and if we can agree on the right terms and conditions. But we're actively looking in the market. There are things in our strategy we can build. But we think that it would behoove us to buy some of those capabilities instead. But we're not going to do it unless we find that the price is right. Mike?

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah. And look, I think you hit all the pertinent points, Peter. I – Ana, you talked about the financing aspect of that. Yes, the rates are good now. And certainly, if the right opportunity presents itself, we think we're in a strong financial position both cash-wise and certainly from a credit rating agency and our ability to borrow. There's no barriers on that front from getting the acquisition that we want. It just needs to be the right fit from our perspective. And as Peter noted, we're actively working that pipeline.

Ana Goshko Analyst, BofA Securities, Inc.	Q
Okay. Okay. Great. Thank you so much. That's very helpful.	
Peter A. Altabef Chair & Chief Executive Officer, Unisys Corp.	A
Thanks, Ana.	
Michael M. Thomson Executive Vice President & Chief Financial Officer, Unisys Corp.	A
Thanks, Ana.	



Yes. Hi. This is [ph] Seana (00:59:02) on for Frank. Congrats on the results and thank you for taking my question. I just have one on the pension liability. You achieved your target of \$1.2 billion gross liability reduction this quarter. With the recent rate move, though, how should we be thinking about the size and the funded status of your plans today? Thank you.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Sure. Peter, I'll take that one if you don't mind. Look, I don't think from a funded status perspective we're in really good shape. We're not anticipating to make any contributions to the US defined benefit pension plan as we've noted and with – is obviously why we undertook what we did. That does not mean we're not going to continue to look at opportunities as it pertains to removal of pension liability.

Certainly, with the way rates are moving, there can be some rate arbitrage. We are in a fiscally very sound position to take advantage of that. We are also in a defensive position in the sense that we're protecting our return on assets because that's obviously funding future contributions. So, we're really just in a really good spot. The funded status has improved.

We've seen a decline in the overall deficit, obviously, a sequential decline and a pretty significant decline year-over-year. And we'll continue to look for opportunities to remove gross liability similar to what we did over the course of the last year-and-a-half with the \$1.2 billion of reduction there. We think there will be some opportunities specifically on the US plans in 2021 and certainly in 2022. And we think there's some opportunities perhaps in 2022 for some of the foreign plan. So, again, from our perspective, the cash contributions is no longer a concern and it's really just being on the front foot and taking advantage of any rate arbitrage to continue to derisk by removing that liability and continuing to invest wisely in regards to the return on assets. So, those are the two aspects that we will continue to focus on.

Great. Thank you.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

[ph] Seana (01:01:26), thanks very much for your question. Greatly appreciate it.

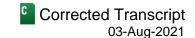
Operator: And this will conclude our question-and-answer session. I'd like to turn the conference back over to Peter for any closing remarks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thanks very much, operator. And I want to thank Mike for being really an extraordinarily positive force in our company. And I think that shows in these calls. But that's also true of our leadership team. Our leadership team, I mentioned Eric Hutto earlier in this call. Teresa Poggenpohl is responsible for leading the marketing and

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communications function. You'll see a lot more from us around our marketing efforts as we really kind of make sure that the buying elements of our clients and prospects are aware of what we have and appreciate, I think, the strength of our capabilities and solutions.

The last quarter for instance, you saw on this call, me ask everybody to pay some attention to our new Investor Relations website, which as of last quarter was brand new. We have followed that up by creating an entirely new corporate website this quarter. It went live about two weeks ago and it is new from the ground up. We've got a new engine behind it, which will provide us added flexibility going into the future. But it is a different look and feel. It is a different way for clients to interact with us. It is very much our store front. That doesn't mean that everyone who buys services from us will do it digitally over the Web, although we do have a digital purchase engine that is spooling up, but it does mean we think almost everybody, from a client or prospect standpoint, will interact with us by looking at our capabilities through some of those Web descriptions and tools and assets and soapboxes.

So, we really would hope that everybody on this call spends a little time on that new website. Any questions about it or comments, please feel free to send them to me, send them to Mike or send them to Courtney Holben. And you can rest assured that we're going to pay attention to it, because one of the audiences, we think, that is looking at that broader website, not just our Investor website, are the people on this call. And so, we thank you for doing

With that, we look forward to our next call. And in the meantime, as you know, from our client – our Investor Relations team and for all of the team at Unisys, we stand ready to have a continuing dialogue with each of you. So, thank you very much.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.

PS: Text in [] was added after the completion of the event, at the request of the company, to provide clarity.

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