UNISYS

1Q14 Financial Release
CEO/CFO Statements
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Niels Christensen, IRO

Thank you operator. Good afternoon everyone, and thank you for joining us.

Earlier today, Unisys released its first-quarter 2014 financial results. With us this afternoon to discuss our results are Ed Coleman, our CEO, and Janet Haugen, our CFO.

Before we begin, I want 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 on our Investor website.

Third, today's presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. These have been provided in an effort to give investors additional information. The non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliations within the presentation.

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 actual results to differ materially from expectations. These factors are discussed more fully in the earnings release and in the company's SEC filings. Copies of these SEC reports are available from the SEC and from the Unisys Investor website.

Now I'd like to turn the call over to Ed.

Ed Coleman, CEO

Thanks, Niels. Hello, everyone, and thank you for joining us today to discuss our first-quarter 2014 financial results. Let me provide a summary before turning the call over to Janet for a more detailed review of those financial results.

Please turn to Slide 4 to begin our discussion.

Following a strong fourth quarter of 2013 where we grew Technology and Services revenue and profit, our first-quarter 2014 revenue and margins were impacted by lower sales of Technology, timing and execution issues on a few IT services projects, as well as lower than normal project-based revenue with our IT outsourcing customers. This resulted in a break-even Operating Profit before Pension Expense, but a net loss of $54 million in the quarter versus a net loss of $34 million in the first quarter of 2013.

We look for improved overall results through the course of the year, driven by anticipated full-year growth in our Technology business as well as improved Services margins.

Our ClearPath revenue was unusually low in the quarter. As you know, our ClearPath sales can vary significantly from quarter to quarter depending on the timing of deal closings, which is why this business is best measured on an annual basis.

Based on the ClearPath opportunities we have in the pipeline, we look for our full-year 2014 Technology revenue to be about $500 million, which is consistent with the average over the past four years and represents growth over 2013. Revenue from Stealth and *Forward!* will be incremental to this.

In our Services business, our goal is to keep our revenue approximately flat for the full year of 2014 in what continues to be a challenging market for IT Services. We are focused on improving our execution from the first quarter and capitalizing on growth opportunities for some of our newer Cloud-based services and solution offerings, as well as for our end user outsourcing services. We are confident in our strategy and focused on achieving our financial goals in 2014 and over the 2014 to 2016 timeframe. As a reminder, those three-year goals, which you can see on Slide 5, are:

- To grow our Technology business by leveraging our investments in new products such as Stealth and *Forward!* as well as continued innovations in ClearPath;
- To continue building out our reseller channel to reach new customers and increase the percentage of our revenue coming from the channel;
- And finally, to reach our goal of consistently achieving an 8 to 10 percent operating profit margin in our Services business, by growing our higher-margin services, simplifying our operations, and providing services more cost efficiently.

To achieve these goals, we continue to invest in innovative offerings aimed at growing areas of the market. Slide 6 shows the offerings and programs where we are investing across our Technology and Services businesses.

In the Technology area, we are pleased by the market interest we are seeing in our Stealth cybersecurity software. Stealth uses advanced data cloaking and encryption technologies to help organizations mitigate cybersecurity attacks by making devices, data, and end users undetectable to hackers and other unauthorized users on the network. In fact, if you are not authorized to access certain data, you are not even aware the data exists.

Stealth is being marketed by both our direct sales force as well as by our value-added resellers. As we continue to get the word out on the unique advantages of Stealth, our pipeline of opportunities continues to grow.

During the first quarter our channel team met with more than 150 organizations to review Stealth, the majority of which were introduced to us by our resellers and are new to Unisys.

We are also seeing good initial market interest in our new *Forward!* Intel-based server platform. *Forward!* offers a powerful, flexible, and lower-cost alternative for organizations looking to migrate from expensive proprietary Unix systems, to consolidate sprawling data centers onto a standard x86 environment, and to run ERP and Cloud applications more securely and cost effectively.

Forward! combines standard Intel x86 processors with our own secure partitioning technology for running Linux and Microsoft workloads in a flexible fabric computing environment.

North American manufacturer JMC Steel recently completed a beta test of *Forward!* that delivered 40 percent better performance for JMC's mission-critical SAP applications than its existing servers. This client said that it "couldn't have been more impressed" with the results and that *Forward!* "could deliver significant value as a platform for future mission-critical workloads."

We are in the early stages of bringing this new product to market. Like Stealth, we expect 2014 revenue for *Forward!* to be weighted to the second half of the year.

In our Services business, we continued to bolster our solution offerings to take advantage of Cloud- and Software-as-a-Service-based delivery models.

During the quarter we announced expanded capabilities for our Edge IT Service Management solution, which we offer via an as-a-service delivery model. Our ITSM-as-a-service solution uses predictive analytics to deliver cost-efficient, personalized IT support services to an organization's end users. We added six more clients in the quarter, bringing the total number of clients using our ITSM platform to 158.

We see growth potential for our Edge ITSM solution in markets around the world. In China, for instance, we are partnering with data center hosting provider 21Vianet to deliver the Edge solution to businesses and government organizations.

Moving to Slide 7 – across both our Technology and Services businesses, we believe we have a strong set of compelling, value-added solutions that help clients address and take advantage of disruptive trends occurring in the marketplace.

In terms of service and solution quality, we take pride in the awards we've received recently for service excellence from both clients and partners.

We've also made much progress in terms of being recognized as a leader in our areas of strength by firms such as Gartner, Forrester, and IDC. Over the last year, we more than doubled the number of industry analyst reports where Unisys and our offerings are included. Today we are being rated as a leader or major player in such growth areas as mobility, workplace services, and managed services and we've also seen significant increases in press and media coverage of Unisys and our offerings.

At the same time, we recognize we need to do a better job of representing and selling our offerings in the market, and we continue to make important changes in our sales team and go-to-market model. We are also increasing our investments in marketing and advertising in 2014 to increase the visibility of Unisys solutions in the market.

All of this work supports our long-term goal of becoming a company known for financial strength, where the quality of our services and solutions provides ongoing differentiation and where we are an acknowledged leader in those areas of strength.

Turning to Slide 8 … while this was a tough start to the year, we are focused on improved execution. We look for improved results during the course of the year to drive us to achieving our 2014 financial goals which we discussed earlier this year. These goals are: to return the company to revenue growth; continue to invest in new, innovative products and services; and grow pretax profit compared to 2013 levels before the impact of new product investments.

Thank you for joining us today. Now, here's Janet to take you through our results in more detail, and then we will be happy to take your questions.

Janet Haugen, CFO

Thanks, Ed and hello, everyone.

Following a strong performance in the fourth quarter, the first quarter revenue and margins were weaker. Please turn to Slide 10 for a discussion of our first quarter 2014 financial results.

We reported revenue of $761.7 million in the quarter, which was down 6 percent year-over-year; down 4 percent on a constant currency basis.

Technology revenue in the first quarter of 2014 was down compared to the year-ago period principally reflecting lower sales of our ClearPath systems.

The Technology performance continues to be best measured on an annual basis and we continue to target year-over-year growth for this business in 2014. The average revenue from our Technology segment over the past four years has been approximately $500 million. As Ed noted, our goal is for our base Technology business to achieve that level of revenue in 2014. Our Stealth and *Forward!* product offerings represent the opportunity for growth above that base.

Our first quarter 2014 results were also impacted by timing and execution issues on a few IT services projects as well as lower than normal in-quarter sell-and-bill revenue in our IT Outsourcing business. We started the quarter with $630 million of Services backlog expected to convert into first quarter 2014 revenue. As we previously discussed, 10 to 15 percent of our Services revenue is typically sold and delivered within a quarter. In the first quarter of 2014, only 9 percent of our actual Services revenue was sell and bill – below the low end of our historical range. This impacted not just revenue but also margins since the in-quarter project revenue normally has a higher incremental margin percentage.

As I will discuss in more detail later, approximately $650 million of our March 31, 2014 backlog is anticipated to convert into second-quarter 2014 Services revenue. This level of revenue in backlog is up $20 million sequentially and is about the same level as March 31, 2013.

Currency had a 2 percentage-point negative impact on our revenue in the quarter.

Based on today's rates, we anticipate currency to have between a 0.5 to 1-percentage-point favorable impact on revenue in the second quarter of 2014 compared to the second quarter of 2013.

Our gross profit margin declined from 19.9 percent in the first quarter of 2013 to 17.5 percent in the first quarter of 2014 as a result of lower year-over-year revenue in Technology as well as lower than expected project-based revenue within our IT Outsourcing business and timing and execution issues on a few IT Services projects.

Operating expenses declined approximately 4 percent year-over-year in the first quarter of 2014. This reduction was achieved despite the incremental investments we continued to make in growth programs like Stealth, *Forward!*, our reseller channel initiatives, and our Cloud-based solutions. However, as we mentioned in our year-end earnings release call, because of our anticipated incremental investments in new product and services offerings, we expect 2014 will have $35 to $70 million higher selling and marketing expenses than we saw in 2013. During the first quarter of 2014, the incremental spending on these growth programs was approximately $5 million. While this was more than offset by lower operating expenses elsewhere during the first quarter of 2014, we continue to expect that the increase in year-over-year operating expenses for the full year 2014 will be in the range I just mentioned.

First-quarter 2014 pension expense was $19.5 million compared to $23.2 million in the first quarter of 2013. Within the income statement, pension expense is allocated to cost of revenue, SG&A, and R&D on the same basis as the salaries of active employees. Pension expense is not included in the segment results and we expect approximately $78 million in pension expense in 2014, compared with pension expense of about $94 million in 2013.

In the first quarter of 2014, our operating loss of $19.9 million was about break-even before pension expense.

Other expense for the first quarter of 2014 was $9.8 million which was primarily attributable to foreign exchange losses, including a $5.8 million loss attributable to Venezuelan currency changes. Other expense of $4.9 million in the year-ago quarter included a $6.5 million foreign exchange loss related to the devaluation of the Venezuelan currency. After the impact of the devaluation, we had approximately $9 million in monetary assets remaining in Venezuela at March 31, 2014.

At the tax line, we had a $16.0 million tax provision in the quarter on a pre-tax loss of $31.7 million compared with a $21.4 million tax provision in the year-ago quarter on pre-tax loss of $6.0 million. As I have said previously, our effective tax rate varies significantly quarter to quarter based on the geographic distribution of our income and we saw that in this quarter.

We reported a net loss of $53.5 million in the quarter, versus a net loss of $33.9 million in the year-ago quarter. Excluding the impact of pension expense in both years, we reported a non-GAAP net loss of $34.2 million for the first-quarter of 2014 compared to a non-GAAP net loss of $11.6 million in the prior year period.

Our first-quarter 2014 diluted earnings per common share was a loss of $1.15 per share compared to a loss of 77 cents in the year-ago quarter.

Moving to discuss our first-quarter revenue in more detail, please turn to Slide 11. As noted earlier, Services revenue, which represented 91 percent of our revenue in the first quarter of 2014, declined 4 percent year-over-year.   Currency had a 1-percentage-point negative impact on Services revenue comparisons in the quarter.

Technology revenue, which accounted for 9 percent of our total revenue, declined 19 percent year-over-year, 16 percent on a constant currency basis.

On Slide 12, you can see Services revenue and margins.

Services revenue was down by 4 percent, 3 percent on a constant currency basis. Our Systems Integration business revenue was flat on a year-over-year basis in the first quarter. We saw some growth in Business Process Outsourcing and our Core Maintenance businesses, but our IT Outsourcing and Infrastructure Services businesses were down by 8 and 12 percent, respectively.

As I mentioned earlier, we saw lower sell-and-bill revenue in the first quarter of 2014, particularly in our IT Outsourcing business. This was most notable in Australia and Brazil. While the majority of our quarterly IT Outsourcing revenue is recurring, our in-quarter project revenue, which is more discretionary in nature, is an important source of revenue that can vary from quarter-to-quarter.

Services gross profit margin decreased 160 basis points year-over-year to 15.8 percent from 17.4 percent in the first quarter of 2013. This was primarily due to lower gross profit margins in our Systems Integration and IT Outsourcing businesses which were impacted by reduced in-quarter project volume. This decline in gross margin drove the Services operating margin decline of 120 basis points to 1.9 percent in the first quarter of 2014.

The path to our longer-term goal of 8 to 10 percent Services operating margins requires a number of actions to increase gross margins:

- First, fix the execution issues we experienced in the first quarter of 2014
- Services revenue needs to grow
- Need to see increased percentage of higher margin Unisys IP content within our Services revenue mix
- Continued improvement in our U.S. Federal business, and
- Sustained improvements in the delivery of our services through increased automation and efficient labor utilization.

In addition to the gross margin benefits, revenue growth would also enable us to better leverage our operating expenses which would contribute to improved operating margins in our Services business.

Moving on to Technology revenue and margins on Slide 13, Enterprise Class Software and Server revenue declined 22 percent year-over-year due to lower ClearPath volume while sales of Other Technology, all of which is third-party product, rose $1.2 million to $8.1 million.

Lower ClearPath volume in the first quarter of 2014 drove the decline in Technology gross profit margins from 45.8 percent a year ago to 42.5 percent. As we have mentioned before, the profitability of the ClearPath business is sensitive to revenue volumes because of the relatively high proportion of fixed costs associated with this business and is best measured on a full year basis. Our Technology operating margin declined from break-even in the first quarter of 2013 to a negative 21.2 percent in the first quarter of 2014.

Slide 14 shows our first-quarter revenue by geography and industry.

Our North America revenue which represented 42 percent of our revenue in the first-quarter 2014 declined 5 percent with softness in Technology driving the decline. Revenue from the U.S. Federal government represented 15 percent of total Unisys revenue in the first quarter and was up 2 percent year-over-year. We are pleased to see the year-over-year increase in U.S. Federal revenue.

International revenue declined 7 percent in the quarter and was down 4 percent on a constant currency basis.

Revenue in our European region was down 1 percent in the first quarter on an as-reported basis and declined 4 percent in constant currency. The Asia Pacific Region revenue decreased by 12 percent as reported and 4 percent on a constant currency basis. This decline was principally attributable to lower Australian public sector revenue.

In Latin America, currency had a major impact on year-over-year comparisons. Revenue declined 17 percent in our Latin America region. Currency impacted the comparison by 13 points. It was down 4 percent on a constant currency basis. Again, lower in-quarter public sector IT Outsourcing revenue was largely responsible for the decline.

From an industry perspective, Public Sector, which reported a 9 percent year-over-year decline in revenue, remained our largest industry revenue source, representing 42 percent of our total revenue.

Revenue from Commercial industry customers represented 35 percent of our first quarter revenue while Financial Sector customers accounted for 23 percent of our revenue. Commercial revenue declined 7 percent in the quarter while revenue from the Financial sector rose 3 percent.

Slide 15 provides more detail on our U.S. Federal government revenue over the past five quarters.

As mentioned, compared to the year-ago quarter, our overall U.S. Federal revenue rose approximately 2 percent to $116 million. This increase reflected higher Technology sales than in the year-ago quarter as Services revenue was down about 2 percent.

In the first quarter of 2014, revenue from Civilian agencies represented about 44 percent of our overall U.S. Federal government revenue while Homeland Security agencies and Defense and Intelligence agencies each represented about 28 percent of revenue.

We ended the first quarter of 2014 with about $305 million of U.S. Federal services backlog, which was up 4 percent versus the first quarter of 2013.

While we are pleased to see growth in our U.S. Federal business in the first quarter, we see many of the same challenges as our competitors in this marketplace including delays in contract awards and continued uncertainty despite greater near-term budget stability.

For some comments on Services orders, please turn to Slide 16.

In the first quarter, our Services orders declined year-over-year and sequentially.

Within our Services portfolio, only Business Process Outsourcing showed orders growth.

From a geographic perspective, we saw year-over-year Services order declines in all regions in comparison to the first quarter of 2013.

We ended the first quarter with $4.5 billion in Services backlog. The year-over-year decline in backlog from $5.1 billion at March 31, 2013 reflected reductions in Business Process Outsourcing, Infrastructure Services and IT Outsourcing.

As I mentioned earlier, of the $4.5 billion in Services backlog at March 31, 2014, approximately $650 million is anticipated to convert into second quarter 2014 Services revenue. During the past several years, the amount of revenue in backlog at the start of the quarter has typically ranged between 85 and 90 percent of our quarterly Services revenue for the full quarter and the sell-and-bill revenue has accounted for the remainder.

Moving to cash, please turn to Slide 17 for an overview of our cash flow performance in the quarter.

We generated $20.1 million of cash from operations in the first quarter of 2014 compared to $14.1 million in the year-ago quarter.

We contributed $55.5 million in cash to our defined benefit pension plans in the first quarter of 2014 versus $26.6 million in the first quarter of 2013.

Excluding the impact of pension expense, Unisys generated adjusted EBITDA of $26.7 million in the first quarter of 2014 versus $57.6 million in the prior year period.

Capital expenditures were $44.6 million in the first quarter of 2014, versus $25.9 million in the first quarter of 2013. The increase in capital expenditures largely reflected investments in our new products, as well as expenditures on automation tools and leasehold improvements that support further consolidation of our real estate footprint. We expect full year capital expenditures of between $150 and $200 million.

We had free cash flow usage of $24.5 million in the first quarter of 2014 versus free cash flow usage of $11.8 million for the same period last year. Our free cash flow generation before the pension cash contributions was $31.0 million for the first quarter of 2014 versus $14.8 million in the first quarter of 2013. In the first quarter of 2014, we had year-over-year increases of $28.9 million in required pension contributions and $18.7 million in capital expenditures.

I would like to take this opportunity to remind everyone that we do expect free cash flow in 2014 to be impacted by the increase in operating expenses, by the possibility of higher capital expenditures associated with new deals, and by approximately $85 million of increase in pension contributions that we'll need to make in 2014 versus 2013.

Depreciation and amortization was $40.0 million in the quarter, flat with the first quarter of 2013.

Our debt balance was $210 million at March 31, 2014, largely unchanged from a year ago.

Our cash balance was $613.8 million at March 31, 2014 and remained roughly 3 times our debt.

As we have discussed previously, in December 2012 our Board of Directors authorized the purchase of up to $50 million of the Company's common or preferred stock through December 2014. During the first quarter of 2014, Unisys purchased 30,738 shares of common stock for approximately $902,000.

Since March 31, 2014, we have purchased an additional 97,747 shares of common stock for approximately $2.8 million. About $34.6 million now remains available under the Board authorization for further repurchases during the remainder of 2014.

Let me conclude by saying that as we move through 2014 we are focused on improving our revenue and margins and driving top line revenue growth and profitability as outlined in our financial goals.

We are focused on strengthening our business and supporting our new and innovative products in the marketplace to position the company for success in 2014 and beyond.

Thank you for your time.