UNISYS | Securing Your Tomorrow®

4Q19 Financial Release
CEO/CFO Statements
February 25, 2020

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 full year 2019 and fourth quarter financial results. I'm joined this afternoon to discuss those results by Peter Altabef, our Chairman 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 afternoon to guide our discussion as well as other information relating to our full year and fourth quarter performance on our investor website, which we encourage you to visit. Third, today's presentation, which is complementary to the earnings press release include 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 pension, debt exchange, 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 quarter, we will be continuing to report non-GAAP adjusted revenue and related measures as a result of certain revenue related to reimbursements from the company's check-processing JV Partners for restructuring expenses included as part of the company's restructuring program. For more information regarding these adjustments, please see our earnings release and our Form 10-K.

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 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 to review our full year and fourth quarter financial results. 2019 was an exciting year for us, as we made significant progress on a number of our key priorities, including total company revenue growth and expansion of Services profitability. Our focus on security and differentiated IP continue to resonate and help win us contracts. 2019 non-GAAP adjusted revenue and non-GAAP adjusted Services revenue both grew year-over-year. In fact, the fourth quarter represented the seventh consecutive quarter for non-GAAP adjusted Services revenue growth. Services non-GAAP adjusted operating profit also expanded year-over-year, both in the fourth quarter and the full year 2019.

As a result of this, along with lower CapEx, we saw a significant year-over-year improvement to adjusted free cash flow, and we achieved our guidance ranges on all 3 provided metrics for the fourth consecutive year since we reinstituted providing guidance. Mike will provide more detail on our financial results, but first, I thought I'd speak a bit about the business. Throughout both Mike's and my commentary, we will be largely referencing numbers based on the 2019 actual results, which include both U.S. Federal and Enterprise Solutions. We will provide color in certain places on the expected impact of the U.S. Federal transaction, including in our 2020 guidance, which will exclude U.S. Federal.
After the close of the transaction, we will have significantly enhanced capital structure flexibility. This should enable the pro forma business to have a more dedicated focus on driving growth, improved profitability and stronger free cash flow and an increased ability to invest both organically and inorganically to help achieve these goals. Mike and I will highlight a number of opportunities we see as a result of this transaction, and we also look forward to providing more detail at the Investor Day that we intend to host on April 29 in New York.

Our Services segment saw continued revenue growth in 2019. InteliServe and CloudForte are differentiating our go-to market efforts. The productized nature of these solutions allows us to bid contracts at more attractive margin profiles than otherwise would be possible. In the fourth quarter, we were awarded Computable's Service Provider of the Year for CloudForte for Microsoft Azure. And during the fourth quarter, we announced new features for CloudForte with Azure, including CloudForte Navigator and CloudForte Compliance. These features enable clients to optimize operations and enhanced security for workloads delivered through the Unisys CloudForte Service Solution with Microsoft Azure and in hybrid cloud environments. CloudForte Navigator bills, operates and continually optimizes secure high-performing systems. CloudForte Compliance provides 24/7 real-time security, compliance monitoring and remediation for cloud infrastructures.

During the fourth quarter, Information Services Group or ISG recognized the company as a global leader in digital workplace Services, specifically highlighting InteliServe as a key strength. We expect to continue to benefit from both CloudForte and InteliServe pro forma for the U.S. Federal sale. We are pleased to see year-over-year Services operating profit margin expand in 2019. Increasing the efficiency of our Services delivery engine to improve profitability remains a top priority for us, and we continue working to integrate intelligent operations, automation and emerging technologies.

Moving to our technology segment, which includes license revenue for ClearPath Forward, Stealth and our industry application products. Non-GAAP adjusted revenue was up slightly year-over-year, which was better than we expected. Our ClearPath Forward operating system business remains healthy, thanks to ongoing innovation of the platform, such as language modernization, modern front-end support and our software series, which has the ability to run in private and public cloud environments. We expect 2020 to be a lighter year for renewals of ClearPath Forward based on the schedule of contracts, but we expect this will rebound with a stronger cycle in 2021. We'll continue to receive revenue from our existing U.S. Federal clients who use ClearPath Forward and SAIC will act as a value-added reseller for this solution.

Moving now to security. Two of the solutions we're going to discuss, Unisys TrustCheck Software as a Service platform and Stealth 5.0, were just highlighted by CSO online as two of the hottest new cybersecurity products at the global RSA Conference being held right now. As we have discussed, though, security for Unisys does not just mean our stand-alone security solutions. It also means incorporating leading security more broadly into all of our service offerings. This has differentiated our go-to-market efforts and has helped drive growth in recent periods. Forrester recently recognized Unisys as a strong performer in its Zero Trust category. Based on the company's cybersecurity software solutions and Services, including Stealth. At the RSA Conference yesterday, we announced the new Unisys TrustCheck Software as a Service platform, which helps users quickly and easily assess the potential financial impact of cyber risks. This new version of TrustCheck provides continuous access to a web-based portal with risk profiles and loss forecasts that are updated automatically as threats, industry risks and trends change throughout the year.

We also continue to evolve our Stealth offerings. Also, yesterday at the RSA Conference, we announced the release of Stealth 5.0, which provides protection for data in containers and Kubernetes environments. Stealth provides always-on security and resilience to stop sophisticated cyber attacks. Stealth dynamic isolation capabilities can effectively wall off a bad actor within 10 seconds of detection, thus allowing the business to continue operations even if under attack. We are expanding our partnership network for Stealth. In connection with the TrustCheck and Stealth 5.0 announcements at RSA yesterday, we also announced the formal launch of the Unisys security global channel partner program. This program is expected to broaden the market reach and client base for our security solutions. Registered partners in the program will have access to discounts, demos, collateral, co-branded materials and customizable marketing campaigns relating to Stealth and other Unisys security offerings and will offer the opportunities for webinars, partner roadshows and regional events. In 2019, Stealth revenue increased 17% year-over-year. We will also continue to benefit from revenue related to our current U.S. Federal clients who use Stealth as SAIC will act as a value-added reseller for Stealth to its broader base of clients.

I'll now provide some color on our other sectors. As we discussed, our U.S. Federal sector has been a key contributor to our strong financial results, with a number of large recent contract wins that have contributed to non-GAAP adjusted revenue growth of 26.5% year-over-year in 2019. Mike will provide some color on our expectations relating to the financial impact of the U.S. Federal sale.

Our public sector is a thriving sector for Unisys and on an ex-Federal sale basis will represent approximately 30% of our revenue. The public sector contributed significantly to our success in 2019 with non-GAAP adjusted revenue growth of 7% year-over-year for the full year. A number of sizable contracts with state governments related to infrastructure modernization have helped drive this growth. We believe there is a demand for similar work with additional states, and as a result of the increased flexibility, pro forma for the sale of U.S. Federal, we expect to be better positioned to pursue these opportunities with some sales efforts already underway. We have also been seeing demand for new solutions from existing state clients as well as foreign governments, and as an example, a state government agency contracted with us to design and create a hybrid cloud environment to better manage the provisioning of resources and to streamline the delivery of data and services to its citizens. Following a successful deployment, Unisys has been awarded additional business to migrate select critical business applications to a new hybrid cloud environment.

Our commercial sector faced a difficult compare in technology in 2019 as a result of the ClearPath Forward renewal schedule. This led total 2019 non-GAAP adjusted revenue for the sector to be down 3% year-over-year. Services revenue for the sector was relatively flat, however, down less than 1%. An example of our value to commercial clients involves a large quick-service restaurant chain that selected Unisys to design and build a cloud management solution. The client was so pleased with Unisys' work and the ability to deliver a more modern cloud architecture that they recommended and introduced Unisys to its supplier, who then signed a contract with us for our CloudForte solution to accelerate its own secure digital transformation.

Financial services non-GAAP adjusted revenue was also relatively flat year-over-year. Revenue for our check-processing JV declined year-over-year, but excluding this impact, revenue for the sector was up 3% year-over-year on a non-GAAP adjusted basis. With respect to revenue from this JV, we expect it to continue to decline in 2020 from $145 million of revenue in 2019 to $105 million in 2020 due to secular trends with respect to check usage. We expect additional modest declines during the duration of the contract until 2023. An example of our land and expand strategy in financial services involves a large U.S.-based financial institution, which selected Unisys to assess security compliance gaps and establish remediation protocols. This initiative led to a contract to modernize their legacy infrastructure environment into a hybrid cloud environment.

Overall, we've made improvements to both the operations and performance of the company that has allowed us to pursue external opportunities. For instance, while 2020 is expected to be a year of transition for us, as we expect to close the sale of the U.S. Federal Government sector during the first half, we will start to rationalize the costs and build on opportunities right after the sale. I have confidence that we have the right team in place to help execute successfully and continue to drive the business forward. Our anticipated capital structure provides increased flexibility, both around organic growth via increased investments in solutions and more capital to put into client engagements and inorganic growth through external investments and M&A.

We expect internal investments to include increased focus on automation and AI within InteliServe, containers and Kubernetes capabilities within CloudForte, enhancements to dynamic isolation and biometrics functionality within Stealth and increased cloud capabilities and micro services for ClearPath Forward. Outside of specific solutions, we also plan to invest in our sales team, our cloud architects and our channel partner network with the goal of enhancing our go-to-market efforts. The type of M&A opportunities we expect to consider would provide scale in areas of our current focus or point-of-sale solutions that could enhance our overall go-to-market effort. And finally, as I noted previously, the sale of U.S. Federal brings a number of opportunities for leveraging our IP solutions with SAIC's client base.

Mike will now provide more detail on our financial performance for the quarter as well as expectations for 2020. Mike?

Mike Thomson, CFO

Thank you, Peter. Good afternoon, everyone, and thank you for joining us today to discuss our full year and fourth quarter financial results. In my comments, I'll discuss both GAAP and non-GAAP results and provide color for our key business drivers. Reconciliations of GAAP to non-GAAP measures can be found within our earnings presentation.

We saw a number of significant accomplishments in 2019, including the highest annual non-GAAP adjusted revenue growth that we've seen since 1998 and the highest annual non-GAAP adjusted Services revenue growth since 2003. We've seen continued year-over-year non-GAAP operating profit margin expansion and significant year-over-year improvement in adjusted free cash flow. We also achieved guidance on all guided metrics for the fourth consecutive year. Our go-to-market efforts continue to be differentiated through our focus on security, our new cloud offerings and digital workplace offerings. As a result, we saw our second consecutive year of growth in non-GAAP adjusted Services revenue and non-GAAP adjusted technology revenue. During 2019, we continued our sharp focus on reducing our cost of delivery and saw year-over-year expansion in Services margins at both the gross and operating level.

With respect to specific results, you can see on Slide 4, that 2019 non-GAAP adjusted revenue grew 6.1% year-over-year to $2.93 billion or 8.6% on a constant currency basis. Non-GAAP operating profit margin expanded 10 basis points year-over-year to 9%. Adjusted EBITDA margin was 14.4%, also in line with the guided range. Non-GAAP EPS was $2.12 per diluted share, up 8.7% year-over-year and ahead of consensus estimates.

The fourth quarter was slightly different this year given technology revenue was more evenly distributed over the course of the year in 2019 than typically is the case. This had a number of implications across our reported metrics, including year-over-year compares on total revenue and profitability. That said, in the fourth quarter, we saw our seventh consecutive quarter of year-over-year non-GAAP adjusted Services revenue growth and saw margin expansion at both the gross and operating level in this segment. We provided additional information on the quarter in the appendix of the presentation.

For the year, I also noted that we saw growth in non-GAAP adjusted Services revenue and margin expansion at both the gross and operating levels for this segment. Full year non-GAAP adjusted Services revenue grew 6.7% year-over-year. Full year non-GAAP adjusted Services gross profit margin expanded 40 basis points year-over-year to 16%, and full year non-GAAP adjusted service operating profit margin expanded 120 basis points year-over-year to 3.6%. Fourth quarter non-GAAP adjusted Services revenue grew 1.9% year-over-year. Non-GAAP adjusted Services growth margin was up 110 basis points year-over-year in the fourth quarter to 15.2% and Services non-GAAP adjusted operating profit margin in the quarter was up 140 basis points year-over-year to 2.5%.

In 2020, we remain focused on continuing to expand margins over the longer term, including through the use of third-party labor where efficient, further implementation of automation, exiting operations in countries where there are structural impediments to profitability and continued best shoring of labor. During the fourth quarter, we took some restructuring actions. We have discussed on these calls throughout the year our intention to do so, and the size and scope of those actions were consistent with the restructurings we announced in Q4 of last year and also in line with what we indicated to expect. Total restructuring expense for the fourth quarter of 2019 was $23 million. The restructuring charges incurred in 2019 were not related to the sale of our U.S. Federal business.

Our current estimate is that we expect approximately $60 million of run rate savings to be taken out of the business after we close that transaction. Of this, approximately $35 million is related to SG&A and largely expected to be realized shortly after closing, with $25 million to $30 million anticipated in 2020 in year benefit, with approximately $10 million of associated takeout costs or restructuring charges to be incurred over the course of 2020. We expect the bulk of the remaining amount to be related to gross margin and realized over the course of 2021, with the additional cost takeout of approximately $10 million to $20 million in the fourth quarter of 2020.

Finally, regarding restructuring, we expect a noncash restructuring charge related to currency translation write-offs associated with the legacy work we've been doing in EMEA of approximately $35 million to $40 million in the first quarter of 2020.

Services backlog ended the quarter at $4.3 billion relative to $4.8 billion in the prior year period. We have consistently noted that the levels of growth and absolute backlog were not necessarily sustainable, expected or needed to achieve our near-term goals. The Services backlog level is substantially in line with our expectation, with the exception of 2 large contracts that totaled approximately $200 million that were anticipated in 2019 but instead were signed in the first quarter of 2020. We still view this as a solid level that supports our medium-term revenue growth expectations, which continue to be in the 2% to 4% range. Of the $4.3 billion of total company Services backlog, we expect approximately $570 million to convert into Services revenue in the first quarter of 2020 or $400 million on a pro forma basis.

With respect to technology, we had expected revenue for this segment to be relatively consistent year-over-year with non-GAAP adjusted technology revenue in 2018, and we ended up slightly better than those expectations with year-over-year growth in non-GAAP adjusted technology revenue of 2.7% for the full year. As we look to 2020, we expect our first half/second half split of technology to return to a more traditional structure where revenue is more weighted to the second half of the year. Specifically, we expect a split of revenue percent to be approximately 46-54 between the first half and second half. We do not expect this to change materially pro forma to the U.S. Federal transaction. Overall, given a lighter renewal schedule for ClearPath Forward in 2020, we expect technology revenue to be down high single-digit percentage year-over-year. That said, 2021 has a larger renewal schedule, and we expect to make up for that anticipated decline in 2020.

I'll now turn to Slide 6, which provides more detail on EBITDA and cash flow. For the full year, improved non-GAAP operating profit margin and lower CapEx translated to significant year-over-year improvements in cash flow. Operating cash flow was up $50 million year-over-year to $123.9 million relative to $73.9 million in 2018. Free cash flow for the year improved $79.5 million year-over-year to a use of $35.9 million from a use of $115.4 million in 2018. Full year adjusted cash flow was up $65 million year-over-year to $127 million versus $62 million in 2018. CapEx was lower year-over-year at $160 million versus our expectation of $180 million and versus $189 million in 2018. The full year amount was still within our targeted range of 5.5% to 6.5% of revenue, though lower-than-expected due to a few purchase orders that were delayed from the fourth quarter.

Pro forma for the sale of the U.S. Federal, we expect CapEx as a percentage of revenue to be a bit higher than it's been in recent years as U.S. Federal was a relatively capital-light business. Going forward, we would expect the range to be between 6.5% and 8%. In 2020, pro forma for the sale of U.S. Federal, we're targeting approximately $175 million of Capex. We also will continue to seek out opportunities for third-party financing of CapEx when economically advantageous to help mitigate any impact on cash. Working capital usage is expected to be between $30 million and $40 million range in 2020, pro forma for the U.S. Federal transaction. Regarding other items that impact cash flows, we expect net cash taxes in 2020 to be between $30 million and $40 million. We would not expect a change in that assumption as a result of the sale of the U.S. Federal business. Additionally, cash interest will be reduced significantly to approximately $30 million for 2020 as we will be taking out our senior secured notes in conjunction with the transaction. Pro forma for that, the only debt outstanding will be our remaining $84 million of convertible notes. This does not account for any potential capital raise that we may pursue post-closing.

Please turn to Slide 7 for a discussion on pension. On the top half of that slide, you can see updated required cash contribution as of year ended 2019. As we've discussed, cash contributions are more sensitive to asset returns than to interest rates in the near term. As a result, and as we've highlighted in the last several quarters, a decline in rates, with all else being equal, actually have a beneficial impact on contributions in the near term. This was the case in 2019 as returns on the fixed income portion of our portfolio benefited from such declining rates, and this muted the decline in the discount rate.

As of year-end 2019, total expected required cash contributions through 2025 have come down by approximately $100 million from expectations for the same period as of year-end 2018, which we have shown in our previous earnings presentations. On the bottom half of this slide, you can see the pro forma contributions post the U.S. Federal sale. We expect to prefund required contributions to the U.S. qualified pension plans for 2020, 2021 and 2022. Therefore, no additional contributions will be required to be made out of operating cash flows for those periods. The international plans will not be impacted by the proceeds from the transaction and the required contributions for those plans are expected to remain constant with what's shown in the presentation, even on a pro forma basis. The pro forma numbers shown on Slide 7 reflect lower contributions in the outer years as well as a result of a higher asset base post-closing. We'll continue to have pension expense in coming years despite the prefunding of contributions, and we expect this amount to be approximately $90 million globally for 2020.

Moving to Slide 8, you can see that as of year-end 2019, our underfunded pension deficit was largely unchanged year-over-year ending 2019 at $1.75 billion versus $1.74 billion at the end of 2018. If you turn to Slide 9, the discount rates used in the calculation for this U.S. plan declined by approximately 100 basis points over the course of the year. This only represents one element of the calculation, and given that we saw asset returns in the U.S. plan of 18% versus our expected return of 6.8%, we were able to offset the negative impact of the decline in rates. Pro forma for the U.S. Federal transaction, we expect the pension accounting deficit will be reduced from $1.75 billion to $1.15 billion. We're pleased that the market conditions have resulted in an improvement to our required cash contributions, and that pro forma for the U.S. Federal transaction, we expect even more significant improvement. That said, we'll continue to assess options for further proactive management of these obligations, including potential capital market alternatives and removal of pension liabilities through bulk lump-sum offerings and/or annuitization of a portion of the pension obligations.

Moving to Slide 10. We still have $1.6 billion in worldwide gross deferred tax assets, approximately $1.3 billion in the U.S. U.S. deferred tax assets, primarily pension and NOL carryforwards related, are expected to be available to offset any federal taxable income resulting from the announced sale of our U.S. Federal business. As a reminder, the company also recently implemented a tax asset protection plan designed to reduce the likelihood of an unintended ownership change for federal income tax purposes, which could otherwise significantly limit utilization of certain U.S. deferred tax assets.

Overall, we're very pleased with our results for the year. As a reminder, we increased our non-GAAP adjusted revenue guidance twice over the course of the year and ended up with growth well above what was expected in our original guidance range. We have consistently stated that our medium-term expectations for revenue growth in the 2% to 4% range. Given that growth this year was substantially higher than that, and along with the changes that are anticipated related to the U.S. Federal sale, we expect 2020 to be a slight reset year.

As a reminder, due to the sale of our U.S. Federal business, the accounting rules require us to present the federal business as discontinued operations for the full year 2020. For our income statement, this means that we will remove the Federal business from all lines and report the results in a single-line item called discontinued operations. In addition, we are required to recast prior year periods. Given that the guidance we're providing excludes U.S. Federal from its numbers, it's our expectation that the transaction will close on schedule, but if for any reason, it does not, we'll provide revised guidance reflecting the full business at that point in time.

With respect to non-GAAP adjusted revenue growth, we expect a range of negative 2% to positive 2% in 2020, which implies total revenue of $2.16 billion to $2.25 billion pro forma for the sale. As Peter noted, we expect revenue from our check-processing JV to decline by approximately $40 million year-over-year, which is reflected in those ranges. The guidance range for non-GAAP operating profit margin is 7.7% to 8.7% pro forma for the sale of the U.S. Federal, which, as we've discussed, is a fully mature margin profile versus the expanding margin profile of enterprise solutions business. Based on the realization of the remaining run rate cost savings associated with the sale of U.S. Federal, we expect there will be approximately 75 to a 100 basis points of upside to non-GAAP operating profit margin in 2021. We expect adjusted EBITDA margin to be in the range of 15% to 16.5% in 2020 pro forma for the sale of the U.S. Federal business.

While we don't provide quarterly guidance, I would note that we expect Q1 to be lower year-over-year, driven by the timing of the technology renewals, along with the decline in our check-processing JV. Additionally, as I noted, 2 large deals that were anticipated to be signed in the second half of '19 were signed in the first quarter of 2020. This not only impacted 2019 backlog but also slightly delays the anticipated revenue recognition. Although not formal guidance, if you apply the commentary I provided on cash flow related to items in our guidance ranges above, it implies approximately $40 million to $105 million of adjusted free cash flow for 2020 on a pro forma basis, excluding any capital raise that we may pursue post-closing.

We're currently not reflecting any material negative impact from the coronavirus outbreak in any of our financial expectations, and we do not anticipate a material negative impact on results during 2020. We employ approximately 430 associates in China. And at this time, we have no reported cases of infection amongst Unisys employees. We have implemented our business continuity planning procedures to address limitations on associates' abilities to get into Unisys offices.

Let's discuss our revenue from clients in China and the overall travel and transportation industry. In 2019, we earned less than 5% of our total revenue from clients in China and in our global travel and transportation business on a combined basis, and we expect a similar amount in 2020. The work we do for these clients is typically not passenger volume related, and we have not seen any material impact to revenue to date. However, it is a rapidly evolving situation that may, over time, have implications that are not currently anticipating.

While there will be undoubtedly complexities related to our 2020 expectations and results, our strong execution in 2019 helps enable opportunities for us and puts us on a solid footing from an operational perspective that will allow us to continue to embrace change in the organization that we believe will ultimately benefit all of our stakeholders. We look forward to providing more detail on the impact of the sale of our U.S. Federal business, the company's strategy going forward and our expected financial performance at the Investor Day, we intend to host on April 29 in New York.

With that, I'll turn the call back over to Peter.

Peter Altabef, CEO

Thank you, Mike. Operator, we're ready to take questions.

Question & Answer Section

Q – Jon Tanwanteng – CJS Securities: My first one is on the outlook. I was wondering what assumption for growth in Services are you making for 2020 and what's the operating margin improvement associated with that on an organic basis?

A – Mike Thomson– Unisys Corp: Yes. I mean, Jon, we're looking for some positive growth in both of those metrics for 2020 and increased growth in 2021.

Q – Jon Tanwanteng – CJS Securities: Okay. In terms of percentages, can we think the low single digits like you've been targeting?

A – Mike Thomson– Unisys Corp: Yes. Look, I mean, we've said our midterm range for that growth is always between 2% and 4%. As we indicated in the opening remarks, our expectations are 2020 will be a slight reset. But clearly, we've given that range of negative 2% to positive 2% and we like to continue that momentum.

Q – Jon Tanwanteng – CJS Securities: Okay, great. And then on the technology side, you mentioned a single-digit decline year-over-year on renewals, and that makes sense. What does the operating margin hit associated with that kind of decline? And maybe just a further one on technology, in general. What is the expected revenue from SAIC? How much is included in the guidance?

A – Mike Thomson– Unisys Corp: Yes, I don't know that we're ready to give specific numbers in regards to the SAIC portion of that. As you know, Jon, the operating profit associated with our ClearPath Forward business are pretty strong margins. And so somewhere between, let's call it, 60% and 80% impact of the decline is what we would expect to see flow-through of the technology business for the slowdown in 2020. But just as a reminder, our renewal schedule in 2021 picks all of that backup.

Q – Jon Tanwanteng – CJS Securities: Okay, great. And just to be clear, you have put the royalty or license from SAIC into your outlook?

A – Mike Thomson– Unisys Corp: Of course, yes. But we don't know what else they'll still, right? They're a $7 billion company. All we've included in our outlook is the amount that we know that we already have in the book of business that we sold to them. So, we're hoping as a channel partner that's going to expand.

Q – Jon Tanwanteng – CJS Securities: Understood. That's helpful. And then just one more question on cash flow. And the color you gave was helpful. Two things I wanted to ask, how much CapEx was pushed out from this year? And two, kind of what exceptional cash items do you expect either from restructuring or from the sale of the Fed business, if anything?

A – Mike Thomson– Unisys Corp: Yes. So, the pushout was about $15 million, Jon, into 2020. And as far as the cash outlook, I mean, outside of what we've already talked about in regards to the restructuring, right, in those 2 components, we don't have anything additional that we would add from a cash outlook perspective.
So just to put a point on that, we're calling for about $30 million of restructuring charges related to that. But just keep in mind that, that $60 million run rate saved that we get for that $30 million output.

Q – Rod Bourgeois – DeepDive Equity Research: Since you've announced the sale of the Federal business, I wanted to see if you could give us an update on the response you're getting from customers, from clients and from partners in the market, such as your channel partners? Clearly, this is a big change. There's a lot more flexibility on the balance sheet going forward. I know there was excitement about that. But can you give us an update on the response that you're getting from those key stakeholders?

A – Peter Altabef – Unisys Corp: Yes, Rod, let me start, and then Mike can give you some specific responses, in particular, from the investor group. So, I'll start with the client group and in the marketplace. I think from a client standpoint, the response has been really uniformly positive. So, I think everyone understands the transaction for what it is. We had, as a company, made really significant progress on 2 of our 3 challenges. The first challenge, obviously, had been revenue growth. The company had not grown since 2003. We turned that around last year, and then we expanded the revenue growth this year. The second was on profitability. So that allows us to reinvest profits into the company and solutions. We've gone from 6.2% adjusted operating profit in 2015 to 9% this year.

But the third element that we had not been able to, let's say, do on our own, was really to strike a substantial blow against the underfunded pension situation. And what this does by giving us a $1.2 billion purchase price, all of which will go effectively to reducing debt and pension is really move us from a company that had some challenges on a capital structure to a company that is frankly now advantaged on a capital structure. It puts us back into kind of the normal, kind of, pack in our industry and actually better than normal in terms of our ability to put money into investments, in terms of our ability to do select M&A and in terms of our ability to really increase R&D where we think we need to do that. So I would tell you, from a client standpoint, we've always been a pretty transparent company. I would say, very transparent. That has stood us in good stead now. They knew the challenges we had on the underfunded pension, and they also know what this transaction does to relieve those challenges. So, I would say, a pretty big deal, and our clients get it.

Mike?

A – Mike Thomson– Unisys Corp: Yes, and maybe one thing I'll add on the client side before hitting the other piece. I think there were deals we weren't even invited to because of our overall balance sheet. And to Peter's point, putting us in a sense of normalcy or actually better than normalcy when you talk about our net leverage ratio being beneath industry standards that actually gives us a leg up to compete on some other bids that didn't have an opportunity.

Clearly, from the other 2 parties, whether it's the investor side and buy/sell side on that and/or credit rating agencies that we've dealt with, all of it has been overwhelmingly positive, as you can imagine, taking down our kind of net debt from $1.8 billion to roughly $800 million certainly delevers our balance sheet. We're 2 turns down from a net leverage perspective.

We have good line of sight to improve cash flow as early as 2021. And we've given you the numbers for 2020. So, I think from the overall strength of the balance sheet and all of the things that Peter mentioned puts us in a really strong light, and it doesn't even talk to our ability from the pension side of the coin to really start going after the removal of some of that liability as opposed to just being able to make those contributions in advance.

Q – Rod Bourgeois – DeepDive Equity Research: Great. And then any thoughts on how your actual employees are reacting? Is there excitement among the troops?

A – Peter Altabef – Unisys Corp: Yes. So, Rod, this is one of those where I believe there is excitement in really both groups. So obviously, we wanted to make sure that with respect to the U.S. Federal team that they were going to a place where - their careers could thrive. Clearly, that is the case at SAIC. As Mike mentioned, SAIC has a larger footprint in the federal government than Unisys did, and they're obviously paying a premium team because they know the ability of that team and the ability to leverage that team inside their larger base. So, from a standpoint of the team going to SAIC, I think they understand the opportunities that they have.

With respect to the team here, while no one is happy to see their colleagues from Federal leave because they were a great bunch of folks, I think everybody also understands the financial flexibility that, that has given the remaining associates. And those remaining associates are almost 20,000 of the 22,000. And I think for all of the reasons I mentioned, around the ability to invest more, around the ability to put more into our deals, around being invited to more deals, about doing more R&D, about doing select acquisitions, this company has not done any acquisitions for 15 years, which is not to say that we're going to go whole hog on acquisitions, but there is a place for those in accelerating growth where you, as a company, have strategically aligned.

So, it really gives us a lot more opportunities. And with respect to capital structure, Mike alluded to it. We have so many more opportunities to lower our overall cost of capital. Now that we're above or we will be above 80% under-funded on the pension, we have opportunities that we did not have before to further decrease that pension obligation. So there really is a host of things we can do. And I think the team here gets it.

Q – Rod Bourgeois – DeepDive Equity Research: Okay, great. And then one final question here. You gave us good color on your technology revenues, I understand the issue there with the renewal cycle. If we hone in on the Services revenue outlook, can you just talk to if there's upside to your plan on Services? What are the primary sources of potential upside? And then, what are the risks that you have to navigate this year amidst the transition? And I guess what I, ultimately, am trying to see into is, do you feel like you're in a better position for growth in 2021 in Services after you've had some time to get the sale out of the way and some of these new investments in place? So just a little more color on the Services revenue outlook, sources of upside and potential risk.

A – Peter Altabef – Unisys Corp: That's all in terms of what we've already built into the model on Services. Now in terms of upside on Services, both in 2020 and beyond, one of the things I talked about in my comments was Stealth's ability to do dynamic isolation and what we call always-on. So, this is the capability that we have now gone public with to dramatically reduce the amount of time, once identified, a bad player can roam around the system before we basically entomb it. And we believe we can do that within 10 seconds of identifying a bad player with Stealth capabilities, okay?

I have to tell you that's an enormous potential upside for this company. But we have to dramatically expand our distribution channel to get that market share on this capability. So, Eric Hutto, who, as you know, is the President of Enterprise Solutions has really been personally leading an effort to expand that partner channel for us so that it is not just our direct sales team selling Stealth and selling the dynamic isolation but lining up a whole host of partners to do that. How quickly that capability gets accepted and appreciated in the marketplace, I think, is a significant unrealized potential upside in the model.

Q – Pallav Saini – Canaccord Genuity Corp: This is Pallav Saini on for Joe. My first question is on renewals in the Services segment. How are renewals affecting growth and margins there? Are there a lot of contracts coming up for renewal that aren't being renewed due to lower pricing? And is that a headwind to top line? And at the same time, if they aren't being renewed, is this a tailwind to Services margins going forward? Any color here would be helpful.

A – Peter Altabef – Unisys Corp: Yes. So Pallav, thanks very much for the question, and please give Joe, my best. What I would say to that is we have been selective. So, it was very important for us to basically throw down the gauntlet and say, "Hey, we're growing revenues," which we did for the first time in 2018, which we expanded in 2019.

One of the things though that we have done even while we have grown revenues is to be more selective around renewals. So, there are absolutely situations in 2018 and in 2019, where we basically took the tack that we weren't going to tell an existing client, we weren't going to renew with them, but we were going to tell an existing client, what it was going to take to renew because some of those contracts were not as profitable as they need to be for us. Some of those clients reacted to that by saying, "I get it. I'm on board. I want to renew." Other clients said, "I just can't pay you that increased freight." And that's okay with us. So, we really have been trying to balance a desire to increase revenue with a desire to make sure the mix of our clients goes more and more to the positive. And you're seeing our profitability increase as a result.

Mike?

A – Mike Thomson– Unisys Corp: Yes. Look, I would say, we've given you some backlog statistics. We have a very healthy pipeline. To Peter's point, I think we've been a lot more selective about the deals that we're pursuing, which is helping our win rates in those pipelines. And the margin profile of those contracts is better, right? So, I think for all of those reasons that Peter alluded to, we feel pretty good about the profit side of the equation, and we're not going to fall back into perhaps what this company had done prior to this management team in '15 and earlier with just chasing top line growth. We want profitable top line growth. We've got, again, a blue-chip client base. Frankly, we've seen folks that thought they could go out somewhere else and do it cheaper and have come back to a subsequent to going out into the marketplace. So, we know we've got quality product, and we know we've got a quality delivery team, and we've got the secure methodologies to support those infrastructures. And so, we think that's a real strength of ours.

Q – Pallav Saini – Canaccord Genuity Corp: Great. And secondly, on the revenue guidance for 2020. What needs to happen for you to hit the high end of the range? And what could push it towards the lower end? Any additional color there would be helpful?

A – Peter Altabef – Unisys Corp: Well, I gave a partial answer to that already, which is we are expecting substantial growth in our Stealth revenue for this year, but it could be higher. So that would be one. Secondly, the 2 new solutions that we outlined around CloudForte and InteliServe are getting much more visibility, much faster. And so, the question will be, how quickly does that increased visibility drive revenue. We have assumed good revenue growth in both InteliServe and CloudForte in the existing plan, but it can be higher in both cases.

On the flip side, what could drive it lower? We mentioned the coronavirus. We mentioned China, travel and transportation. The global travel and transportation and China combined represent about 5% of our revenues. But I think we still are living in a world of uncertainty as to the health of that industry on a global basis as well as what will happen internally for our clients in China. So, I think that's probably the most significant potential downside that I would see right now.

Q –Ishfaque Faruk – Sidoti & Co LLC: A few questions from me. First of all, Peter, you briefly touched on this in your last answer, and that is the technology segment. It seems like it's still being mostly driven by ClearPath Forward. You mentioned that Stealth is growing pretty well, do see a future where you break out Stealth as a separate line item because that's a question I often get from a lot of different investors?

A – Peter Altabef – Unisys Corp: We don't see that in the near term because, as I said, it is still growing. It grew 17% last year. I would tell you that we expect that growth to substantially increase as a percent of revenue this year, but this is still a $2.3 billion to $2.4 billion organization after Federal. And I think we want to wait until that number becomes more material. That said, it continues to be a driver, not only of its own but as an element of some really important larger sales. So, its importance is outside just its revenue.

With respect to the technology revenue, in general, you're exactly right. The majority of that revenue continues to be ClearPath Forward. But I say continues, not as a criticism. I mean, with all that we have done with that platform in terms of modernizing it, in terms of creating public and private cloud capabilities, in terms of modern language, all of the things I talked about, which we are continuing, we've actually been at now for a couple of years. And that's in part why you're seeing the health of that platform. Those clients understand, not only is it honestly, the most secure platform in the planet according to the NIST, but one that they can really have confidence in going forward. So, we're not apologetic at all for our ClearPath Forward revenue. We're very proud of it.

A – Mike Thomson– Unisys Corp: Ishfaque, it's Mike, I just would add to Peter's comment in regards to there's Services revenue that's tied to that ClearPath base as well, right? There's maintenance revenue up in there. There's apps development work. So, it's not just the license revenue that brings in revenue when you talk about ClearPath Forward.

Q –Ishfaque Faruk – Sidoti & Co LLC: Yes. Peter, if I could just have a follow-up related to that. And that is that you briefly mentioned InteliServe and CloudForte. Are those the 2 leading industry applications that you have right now? Or would you call out any leader in that category, maybe?

A – Peter Altabef – Unisys Corp: Yes, I would say that, with respect to the platforms that are going to make up the majority of our growth going forward, we would call out CloudForte and InteliServe, and I know you are already familiar with what those are as well as Stealth. We continue to have other platforms that are interesting and that we have a lot of expectations for, so Elevate in financial Services, for instance, LineSight in border protection. LineSight is an extraordinary platform, but at the end of the day, the number of clients it's ever going to get is fairly limited. There just aren't that many governments that are going to appreciate a solution like that. Whereas both InteliServe and CloudForte span both government, financial services and commercial, and they really are applicable throughout our client base. So, we think there's just more scale there.

Peter Altabef, CEO

I want to thank everybody again for joining the call. This really has been a very special year for this company, being able to hit all of our guided metrics, being able to hit the kind of growth that we have had, the kind of operating profit that we've had are really all records in my tenure here and going back beyond my tenure. We're very proud of the success we have had. We're very proud of the U.S. Federal team, and we think that the transaction with SAIC is going to enable Unisys to really hit the next level of its capabilities. So, there's a lot of enthusiasm here for what's next. There's a lot of energy here. I hope you felt that during the call, and we look forward to an ongoing dialogue with all of you, as I mentioned and then Mike mentioned. We do plan, and we have currently penciled in April 29 in New York as our Investor Day, and we look forward to seeing everyone there.