

**4Q20 Financial Release
CEO/CFO Statements
February 23, 2021**

Management Discussion Section

Operator

Good day, and welcome to the Unisys Corporation Fourth Quarter and Full Year 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Courtney Holben, Vice President, Investor Relations. Please go ahead.

Courtney Holben

Vice President-Investor Relation, 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 fourth quarter and full year 2020 financial results. I'm joined this morning 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 morning to guide our discussion as well as other information relating to our fourth quarter and full year 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 operation 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 and extinguishment, 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.

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 relating 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 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 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

Chairman & Chief Executive Officer, Unisys Corp.

Good morning, everyone, and thank you for joining us to discuss our fourth quarter and full-year 2020 results. We ended 2020 in a strong position with improvements to our capital structure and liquidity and 2020 revenue and non-GAAP operating profit margin that exceeded our expectations. It is an exciting time at Unisys as we have transitioned to our new business unit structure in 2021 with a sharpened focus on higher growth, higher margin markets and solutions. We believe the changes we are implementing will better position the company to drive revenue growth and margin expansion over the coming years.

During the fourth quarter, we continued our progress from the earliest COVID impacted quarters of the year with sequential Services revenue growth, supported by sequential growth in all segments with ongoing strength in public sector, our cloud business and ClearPath Forward services. We also had stronger Technology revenue growth than expected based on higher volumes of ClearPath Forward renewals than anticipated. As a result, we returned to year-over-year revenue growth in the fourth quarter and our full-year 2020 revenue exceeded our previously stated expectations. Non-GAAP operating profit margin expanded year-over-year in the fourth quarter and full-year 2020 non-GAAP operating profit margin also exceeded our expectations. We continued improving our capital structure and liquidity during the fourth quarter about which Mike will provide more detail. As a result, our leadership team is now able to dedicate their full focus to optimizing the business.

To this end, we undertook a number of initiatives during 2020 to better position the company, many of which began contributing to results in the fourth quarter. We refined and enhanced our strategy and we'll be reporting in three new segments effective as of the beginning of 2021, Digital Workplace Services or DWS; Cloud and Infrastructure or C&I, and ClearPath Forward or CPF. Our business platforms and Services revenue and profitability will be reported as other in our results given the diversity of solutions included in that group. We are targeting higher growth and higher margin markets and solutions with a particular focus on areas where we are recognized as a leader and have a clear differentiation.

For instance, we are shifting our focus within DWS from end user services to the higher growth, higher margin end user experience or EUX market which has a three year expected industry CAGR of 7% to 10% versus a 0% to 1% expected CAGR for the rest of the DWS market. Within C&I, we are specifically targeting cloud which typically comes with higher margins. And within cloud, we are focused on public and other highly regulated sectors where we have a strong track record. The expected three-year industry CAGR for public excluding federal within C&I is 15% to 18% versus 11% to 12% for the rest of the C&I market. Within CPF, as you would expect, we already have significant share in license, SaaS and warranty work but we are focused on growing ClearPath Forward services which are the highest margin services in the company. The three-year expected industry CAGR for ClearPath Forward services is 1% to 3% based on a \$1.2 billion market opportunity, but we only had 13% of that market as of year-end 2020 and we expect to grow that market share.

As I said, our financial reporting will track these segments starting in 2021 and our new structure is expected to drive increased internal accountability for delivering results. In addition to business unit initiatives, we are also continuing to implement change across the entire company. During 2020, we enhanced our go-to market approach with a new digital sales platform, upgraded training and a more proactive sales approach and we are digitizing and industrializing our delivery and operations.

We've instituted new workforce management initiatives and are implementing a new ERP system. We provided more insight on all of this at our recent investor event, the slides and replays of which are available on our newly updated investor relations website which we encourage you to visit.

The go-to market improvements we instituted in 2020 are gaining traction with TCV up 22% year-over-year in the fourth quarter and 8% for 2020 overall, and we believe the other operational changes I highlighted position us to drive revenue growth and margin expansion going forward. That said, although TCV improved in the fourth quarter, Services backlog was down 10.5% year-over-year to \$3.4 billion at year-end 2020 given the COVID-related disruptions to client purchasing decisions earlier in the year.

We're also still in the early stages of evolving our DWS offerings to focus more on EUX which will be a key driver of growth in that segment. As a result, we are guiding to 2021 revenue growth of 0% to 2% with acceleration in growth expected in 2022 and 2023 as we emerge from the COVID impacted period and grow our EUX offerings. We expect Cloud and Infrastructure to be our fastest growing segment in 2021. DWS is anticipated to grow more modestly in 2021 with stronger growth in subsequent years as I just noted.

The ClearPath Forward segment is expected to grow slightly year-over-year in 2021. Margin expansion is expected to be relatively consistent over the coming years with profitability improvements driven in

part by operational efficiencies, some of which are already benefiting us as labor as a percent of revenue was down year-over-year again in the fourth quarter and for 2020 overall. The transition to higher margin end user experience and cloud revenue is expected to further benefit profitability. We are guiding to non-GAAP operating profit margin of 9% to 10% and adjusted EBITDA margin of 17.25% to 18.25%, both up approximately 200 basis points year-over-year at midpoint.

Our enhancements to our Digital Workplace Services platform continued during the fourth quarter with integration of new AI, automation and analytics to provide more proactive detection and resolution of problems, aimed at improving end user experience. We are offering cloud based virtual desktop as a service through a partnership with VMware, to allow enterprises to provide app streaming and virtual desktops to workers as their primary workspace. Through our partnership with [ph] Timrod Group (00:11:57), we are leveraging [ph] Virtuwork (00:12:00) to provide advisory services identifying infrastructure changes needed to allow clients' employees to work anywhere with the same security and effectiveness as when they are in the office. Additionally, the profitability of a number of key DWS contracts improved over the course of 2020.

As an example of our work in DWS, during the fourth quarter we signed a contract with a global healthcare provider for Unisys IntelliServe artificial intelligence in robotic process automation to improve the user experience for 39,000 employees globally. Also during the fourth quarter, Information Services Group or ISG recognized Unisys as a global leader in digital workplace services in their reports on the US, the UK and Brazil. ISG highlighted our IntelliServe digital workplace automation platform as a strength for Unisys in addition to our industry focused consulting for the post-COVID world. These recognitions come after being named again to the Gartner Managed Workplace Services Magic Quadrant in North America earlier in 2020.

We completed a number of development initiatives in the fourth quarter within Cloud and Infrastructure to enhance our CloudForte solutions platform including a new release of AIOps that helps optimize cloud infrastructure and improvements to our cloud management platform that accelerates deployment of cloud resources with appropriate security to reduce implementation efforts from several days to a few hours. The new and updated capabilities increase automation of existing and new features, leading to enhanced productivity and greater flexibility and agility for our clients. And we plan to continue evolving our cloud offerings over the course of the year. As with DWS, we have also improved the profitability of a number of key C&I contracts over the course of 2020.

During the first quarter, we expanded our work for US state government to support the state's workforce model that is quickly shifting to a remote-first strategy. We will provide CloudForte as the foundation for a virtual infrastructure that will secure sensitive applications and regulated data by preventing users from printing, copying or downloading data into unsecured devices. In the fourth quarter, as with DWS, ISG also recognized us as a leader in public cloud solutions and services in its quadrant reports on the US, UK and Brazil. They specifically highlighted CloudForte, noting that it provides a comprehensive delivery model leveraging automation, AI and best practices. We were also named a leader in the December NelsonHall Vendor Evaluation for cloud infrastructure brokerage, orchestration and management in the overall market segment. We were placed in the leader quadrant in all three areas evaluated, overall cloud services, cloud brokerage services and cloud orchestration services.

Going forward, Stealth will be included as part of our Cloud and Infrastructure business unit. During the fourth quarter, we announced the latest version of Stealth(identity), our biometric identity management software. The new version includes enhanced features such as a managed identity interface that cross-references biometric results against records from fingerprint readers, scanners and other recognition methods for robust positive authentication and a mobile and web accessible software development kit that provides enhanced customization and an improved user experience.

Stealth(core) 6.0 our microsegmentation solution is serving as the security foundation for the cloud solutions we are leveraging for travel and transportation and hospitality clients related to COVID testing. With respect to ClearPath Forward, the client demand for these solutions was highlighted again in the fourth quarter with higher than expected volumes on renewals and Technology revenue as I mentioned. As an example, TravelSky the leading provider of information technology solutions for China's air travel and tourism industry renewed its contract for ClearPath Forward to process business critical transactions including passenger reservations, cargo bookings and load calculations.

During the fourth quarter, we extended a contract with our largest ClearPath Forward managed services client. Providing more end-to-end managed services is part of our growth strategy in 2021. Managing a client's full environment enables us to significantly increase the level of services penetration into an account. In closing, I would like to say that I truly appreciate all of the hard work from our associates under unprecedented conditions during 2020. We ended the year in a strong position, are implementing exciting change and are poised to drive improved growth and profitability going forward.

With that, I will turn it over to Mike to provide more insight into our fourth quarter and full year financial results. Mike?

Michael M. Thomson

Senior 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. Likewise, information related to discontinued operations is available on our website. We're reporting this quarter based on our historic reporting segments of Services and Technology. As Peter noted, based on the changes outlined in our recent investor event, our reporting structure will align to our new business units starting in the first quarter of 2021. Historical results will be reclassified to reflect our new segment reporting structure and be completed in the coming months.

I'm proud of how the Unisys team came together during the last year to enable us to emerge from 2020 in such a strong position. We made significant enhancements to our capital structure and liquidity and ended the year with better financial results than we anticipated. We transitioned to our new business unit structure at the beginning of 2021 and are executing against our enhanced strategy. We're excited about the opportunities this creates for driving revenue growth, margin expansion and cash flow over the coming years.

I'll touch on some of these opportunities today. But first let me provide more color on our fourth quarter and full-year financial results. Starting with revenue, we returned to year-over-year growth in the fourth quarter with total company non-GAAP adjusted revenue of 5.9% which was also a 16.5%

sequential improvement versus the third quarter. This resulted in year-over-year revenue and non-GAAP revenue declines of 8.8% and 8.2%, respectively which exceeded our previously stated expectations for a 10% year-over-year decline in revenue. Services non-GAAP adjusted revenue was down 2.6% year-over-year in the fourth quarter and 9.8% for the full-year 2020 driven by COVID impacted businesses including Field Services, Travel & Transportation and BPO as well as the expected declines in our UK check-processing joint venture.

The COVID impacted businesses continued to recover and stabilize in the fourth quarter and Services non-GAAP adjusted revenue grew 4.5% sequentially. Technology revenue grew 50.1% year-over-year in the fourth quarter and was also up 90.6% sequentially driven by higher than expected volumes on ClearPath Forward renewals. This also drove full-year 2020 Technology revenue to exceed our expectations with year-over-year revenue growth of 1%.

Moving to profitability, non-GAAP operating profit margin was up 790 basis points year-over-year in the fourth quarter to 14%, driving full year 2020 non-GAAP operating profit margin to 7.5% which was up 30 basis points year-over-year. These results were supported by year-over-year Services non-GAAP adjusted gross and operating profit margin expansion both in the fourth quarter and in the full year.

Services non-GAAP adjusted gross margin was up 360 basis points year-over-year in the fourth quarter to 18.4% and 90 basis points for the full-year to 16.4%. Services non-GAAP adjusted operating profit margin was up 310 basis points year-over-year in the fourth quarter to 1.6% and 50 basis points year-over-year for the full year to 70 basis points.

Technology gross profit margin was up 130 basis points year-over-year in the fourth quarter to 73.2% and Technology operating profit margin was up 460 basis points year-over-year to 54.3%.

These improvements were helped by the stronger Technology revenue in the quarter. For the full-year 2020, Technology gross profit margin decreased by 400 basis points to 65% and Technology operating profit margin decreased by 530 basis points to 40.8%. These declines were largely driven by higher amortization charges and higher third party hardware sales which come with lower overall margins. Adjusted EBITDA margin expanded 770 basis points year-over-year in the fourth quarter to 21.5% and 140 basis points in 2020 to 15.8%. These results let us not only to beat our previously stated expectations but also to outperform FactSet consensus estimates for 2020 on all key metrics with the exception of GAAP EPS, the estimates for which did not fully reflect the expected fourth quarter charges that we highlighted in our last earnings call.

In addition to the revenue and profitability results I just mentioned, we also continued improving our capital structure and liquidity in the fourth quarter. Adjusted free cash flow was up 59.6% year-over-year for the full year 2020 to \$42.6 million. This increase was supported by an 18.6% reduction in CapEx spent year-over-year in 2020 to \$130 million. Operating cash flow and free cash flow comparisons were impacted by voluntary pension contributions that we made during the year. We ended 2020 with a cash balance of \$898.5 million versus \$538.8 million at year-end 2019. We also continued executing against our plans to reduce our pension obligations during the fourth quarter. As we talked about on our last call, we raised \$485 million of senior secured notes during the quarter, the proceeds of which were used to reduce the pension deficit and make additional voluntary cash contributions.

Based on year-end 2020 calculations and pro forma for the additional \$200 million of cash from the balance sheet that we expect to contribute in 2021, the global pension deficit would be approximately \$840 million versus the \$1.75 billion at year-end 2019 and we would have just \$11 million of expected remaining contributions to US qualified pension plans versus \$826 million as of year-end 2019.

For all other plans, we have approximately \$190 million of required contributions through 2025. Our net leverage at the year-end 2020 inclusive of the \$840 million deficit I just noted was 2.4 times. As we've discussed, in addition to reducing the deficit in pension contributions, we've focused on reducing the gross pension liabilities themselves with the previously stated goal of \$1 billion reduction by the end of the first quarter this year. During the fourth quarter, we made progress on this front by removing over \$275 million in gross pension liabilities through a bulk lump sum offering.

In January, we announced the removal of just under \$280 million of additional liabilities by a transfer to MassMutual. We're also targeting the removal of approximately \$550 million of liabilities associated with our Netherlands plan and approximately \$100 million of liabilities associated with our Swiss plan. As a result of all this, we now expect to be able to remove approximately \$1.2 billion of gross liabilities by the end of the first quarter, \$200 million more than our original goal.

During the first quarter, we'll also be retiring our remaining \$84 million of convertible notes that are outstanding. We will net settle the notes which will result in approximately 3.4 million net shares being issued, factoring in the capped call and based on the closing stock price as of February 18. The final share count will be determined prior to settlement. The net settlement method results in significantly fewer shares being issued than the full potential dilution as the remaining principal will be paid in cash.

As we've mentioned, we have transitioned to our new business unit structure as of the start of 2021 and our financial reporting will reflect those segments starting in the first quarter. We believe that the new reporting structure will provide additional insight into the key drivers of the business going forward and will likewise increase internal accountability for driving results. Additionally, within the newly defined business units, we'll be shifting to higher growth and higher margin markets and solutions which we expect to create significant opportunity for revenue growth and margin expansion over the coming years, which in turn should drive improved free cash flow. We laid out our detailed expectations for the next three years as part of our investor event and we encourage you to visit our new investor relations website that was relaunched in January to review the slides and replays from this event.

Regarding near-term expectations, we're providing 2021 guidance for revenue growth of between 0% and 2%, non-GAAP operating profit margin of between 9% and 10% and adjusted EBITDA margin of between 17.25% and 18.25%. As Peter noted, our revenue growth is expected to accelerate in the years following 2021 as we progress in our transition and enhance our service offerings. Margin expansion on the other hand is expected to be relatively consistent over the three-year period which is reflected in the guidance ranges we're providing.

In 2021, our ClearPath Forward segment will include both licenses and services revenue generated by this franchise. We expect total ClearPath Forward license revenue to be roughly flat year-over-year and split roughly 55% and 45% between the first and second half of the year respectively with the third quarter expected to be the lightest quarter of the year and the fourth quarter expected to be the strongest. ClearPath Forward license revenue is expected to make up roughly 45% of the total ClearPath

Forward segment revenue in 2021 and overall ClearPath Forward segment revenue is expected to be up low single digits year-over-year.

Services backlog was \$3.4 billion as of the end of 2020, up 3% sequentially versus the third quarter. We expect \$375 million of this to convert into revenue in the first quarter of 2021. Overall, we expect first quarter 2021 revenue to be down slightly year-over-year as our DWS business is still returning to its pre-COVID levels. Lastly, there are some sizable charges expected during 2021 associated with the pension liability work we're undertaking as well as our initiatives to realign our segments and enhance our efficiencies.

As I noted during the investor event, we're targeting \$130 million to \$160 million of run rate save exiting 2021 from our efficiency efforts. Of the \$130 million to \$160 million, we expect to recognize half of the savings during 2021 with restructuring costs to achieve the savings of approximately \$40 million to \$70 million. We took charges related to this of approximately \$30 million in the fourth quarter of 2020 and expect \$10 million to \$15 million of additional charges in the first quarter of 2021.

With respect to the pension liability removal work, we expect approximately \$375 million of onetime non-cash settlement charges during the first quarter of 2021. This would complete Phase 1 of our pension liability removal program and remove approximately \$1.2 billion of gross pension liability. We will of course continue to look for opportunities to remove additional pension liabilities in the future.

To wrap up, I would like to again thank our Unisys associates for all of their efforts throughout 2020. Your dedication and support helped us end the year with a strong liquidity position, achieve better financial results than expected, and position us for enhanced growth and margin expansion going forward.

So thank you all, and now I'll turn the call back over to Peter.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thanks, Mike very much. And, Alyssa, I think we're now ready for questions.

Question And Answer Section

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Jon Tanwanteng of CJS Securities. Please go ahead.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Good morning, guys. Thank you for taking my questions and really nice end to 2020. It was a rough year for everyone, so it was nice to see. I was wondering if you could talk about your ability to drive signings in the Services businesses in the first quarter. I know COVID spiked in a bunch of places around the

world as an additional lockdown, maybe first of all address that. And number two, when would you expect backlog to start increasing in Services again as we go through the year? And I'll come with one more after that.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah. Jon, thanks. Those are great questions. Obviously, there's some uncertainty about the timing of signings. I would tell you that our pipeline is up, both a qualified pipeline and even the prospecting pipeline. We do expect over the course of the year, on your second question, to have a backlog higher by the end of the year than it was obviously by the end of 2020. So, we expect not only new signings, but accretive new signings to backlog. Exactly how much of that comes in the first quarter is a bit unknown. Certainly in EMEA and in the US, we still have some tough COVID opportunities in terms of travel, in terms of sales.

We have a new digital sales platform that started last year that is allowing us to remotely sell much better than we had before. Our TCV went up for the year, our ACV went up for the year. But I would say the first quarter is still going to be a little tricky in terms of the amount of sales done. Added to that and I think this is an industry question overall, when we look at the pipeline for 2021, we see a pretty good amount of signings for the year. That's not only true for us, but it's true for the industry. One of the questions that I think we're all dealing with is, is there going to be a race to the bottom for the profitability of that business as people really look to rebound on revenue over the course of the year from the challenges of last year?

I think you can see from our forecasts with a modest amount of revenue gain, but a much higher amount of margin improvement. We are focusing on margin improvement for the year. We don't have a real desire to do a race for the bottom on selling business that's not going to be long-term accretive. We've got very strong margin accretive goals for each of the next three years, and so that's going to require us to be pretty disciplined on signing work that is consistent with that margin focus. But I would say that our focus really is margin first, revenue growth second. Jon, I hope that helps. [indiscernible]

(00:33:42)

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Maybe I can just add one little comment to that as well. I mean typically what we see from our clients are kind of the February-March timeframe is when their budgets kind of get locked down and they start really infusing that into the marketplace. So Q1 is probably a little early from a normalcy perspective as to when we see that. But Peter's spot on that we're anticipating backlog to grow year-over-year and obviously have that happen throughout the year.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Got it. Mike, any thoughts on the pension reform language in the current relief bill, and if it's meaningful to you at all if it passes the way it is now?

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Look, Jon, we've been pretty consistent on this and the language that's currently in the bill that's passed the house is consistent with what we've been talking about, essentially permanent pension relief. And ultimately what it means to us is if it passes in the way it's currently constructed, the \$200 million that we were anticipating putting in this year we wouldn't have to put in and we wouldn't have another pension contribution to make on the US qualified plans until like 2027 or 2028. So from our perspective, it really just leaves a good amount of cash in the coffers to continue with our growth strategy. Outside of that, really not a big change and as you know we're prepared regardless of what Congress does to move forward on taking care of the pension from our perspective.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Got it. Just one more if I could. It sounds like you pulled in some tech renewals from 2021 into the fourth quarter, I'm just wondering how that impacts Q1 in terms of... [indiscernible]

(00:35:31)

Jon Tanwanteng

Analyst, CJS Securities, Inc.

...you gave some color on the year, so just if you could... [indiscernible]

(00:35:35)

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. It wasn't really a pull – yeah, Jon, thanks for that. Wasn't really a pull forward. It was actually just increased volumes on a renewal, so really no impact on Q1 from our normal tech renewal perspective. So again it was just two clients in particular had higher volumes in their renewals than we had anticipated.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Got it. That's very clear. Thank you, guys.

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Sure. Thanks, Jon.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thank you, Jon.

Operator

Your next question is from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Hey, guys. Good morning and congratulations on a great year 2020. Great, great job. You deserve a lot of credit for it. So just a question. I know you've been doing pretty well in state and local governments recently and I think there was another win this quarter there. But perhaps what – how does that pipeline look in deals for 2021 and then a quick follow-up after that?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah. Joe, thanks. Thank you for the thank you. And thank you for getting up so early this morning. I would greatly appreciate it. What I would say is the – we call that our public sector as you know which is US state and local and then governments around the world. What I would say as we look at our public sector, not only in US but around the world, it's our strongest sector. So we feel very good about US state and local signings. We feel very good about our ability to grow outside the US as well. In the US, obviously you have budget constraints given the COVID situation, but you also have the realization that they can't do business the way they are.

The single biggest growth area for our state and local business in the US is cloud based so that fits very, very well with our business unit strategy and focusing on the cloud and focusing on public cloud. So, we're pretty bullish. As you know, our value proposition to governments is particularly to state and local in the US always includes cost reductions from their current run rate. So, we do expect to get them up and running in a more vibrant cloud environment than they have now and save money while they do it. And we think that's a formula for success. So, we're bullish on the state and local pipeline.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Great. Thanks Peter. And then I know Mike, you mentioned some additional cost initiatives in 2021. I was just wondering if you could perhaps detail strategy of where a little bit more where that cost take-outs coming from and redeploying it. I know you talked about margin expansion, but what's the trade-off in ROIs that you're seeing now and in investing for growth versus perhaps letting that flow to the bottom line from a P&L perspective.

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Thanks for that, Joe. So it's really coming across the board. I think one of the major changes that we implemented in 2020 and we'll see the full valuation come through in 2021 and beyond is our workforce management program. The team has done a really good job of implementing some tools,

having visibility to the workforce. Our cost of labor or our cost of COGS is frankly the lowest as a percentage of revenue since I've been with the company which has come into my sixth year here. So really – it's really across the board. It's efficiency play, Joe, more than anything. Clearly that's coupled with the IntelliServe platform, the CloudForte platform that we continue to automate and enhance.

So that allows for some more efficiency as well. So I wouldn't say it's one particular item. In general, it's labor based and it's real estate based. We talked about on our last couple calls that post pandemic in our review of the real estate portfolio around the world, we found that we could operate a lot more efficiency. So we're giving back some space in certain areas, are allowing leases to lapse and consolidating space in other areas. So I think those two are the primary benefits for that. And you saw from us on the Investor Day that our expectation kind of exiting 2023 is about 600 basis points of margin improvement. And we think that that's going to be pretty much straight line over the course of 2021, 2022 and 2023 with roughly 2 points of margin improvement per year. A good chunk of that is coming from those improvements that we've talked about.

I also would like to just illustrate and you touched on it a bit in your question here, there is a reinvest component here. We're looking between 20% and 30% of that save to be reinvested as we continue to enhance our skill sets, enhance the training for folks, hire more people in strategic areas and talk about other areas of improvement for all of the lines of business. So I think, Joe, it's more horizontal view. It's across the board and pretty consistent in the magnitude that we expect per year.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah. And if I could just follow on Mike's comment, Joe, and just to make sure you've got the numbers, reducing the cost of labor as a percentage of our revenue is the end product, it's not the beginning, right? You don't start saying, oh, let's go reduce the cost of labor. It's all of the workforce management, all of the systems, all of the leveragable IP that we put into our solutions. But just to give you those numbers, cost of labor as a percent of revenue was about 58.3% in 2019, it was 55.6% in 2020 and by 2023, we expect it to be 51%. So that's a nice chunk of some of our margin increase over the course of that time, but again it is a lot that goes into taking those costs out as a percent of revenue and getting that margin increase.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Sure. That's...

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Maybe if I could too, Joe, just real specific on the numbers I mentioned that we took a charge in the fourth quarter of \$30 million. We're anticipating between \$10 million and \$15 million in Q1. And we said the overall program would cost between \$40 million and \$70 million, so most of the charges frankly have already been incurred. And so really it's about how much we reinvest and where we need that reinvestment.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Sure. That's great. Thanks. That's helpful, Mike. And then just I know that you're not really providing it for 2021, but how should we think about cash flow [ph] unlike (00:43:03) your capital efficiency and CapEx was a little lower in Q4, was that kind of timing or was that anything notable we should be thinking about there? Thanks a lot.

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Sure. Thanks again, Joe. Look, if it wasn't for the voluntary pension contributions that we intend to make and we'll see how the legislative element breaks, we would be free cash flow positive in 2021 and not adjusted free cash flow positive, free cash flow positive. The CapEx number that we closed the year at at about \$130 million as you know is about \$20 million better than we had anticipated throughout the year. We took it down to about \$140 million at the end of the third quarter and came in lower than that.

I think that is really more a byproduct of what you've seen from us over the course of the last three years or so. That CapEx number just in a comparative purpose three years ago was about \$210 million. So, our capital light strategy continues to drive that number down. We had talked about on Investor Day that we're also moving to a cash or working capital neutrality view. So, that's going to have some improvements in cash flow as well. So, I think it's just what you've seen from us, Joe, over the last couple years is just continual improvement and continual focus on driving down the CapEx number and enhancing our working capital profile.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Great. Thanks very much, Mike. Thanks, Peter.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thank you, Joe.

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Thanks, Joe.

Operator

Your next question is from Matthew Galinko with Sidoti. Please go ahead.

Matthew Galinko

Analyst, Sidoti & Company, LLC

Hi. Thanks for taking my question. Just a couple from me. One being, you touched on higher third party hardware sales in the mix pressuring Technology margins a little bit this year. Obviously, the reporting structure is going to be different going forward. But just curious functionally how that – is that sort of the normal look going forward or does that continue to bounce around a little bit and create some volatility in that margin?

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Look, it's really fairly normal and thanks for the question, Matt. Typically our hardware or a third party hardware is anywhere between 10% and 15% of Technology revenue in any given year. It's actually more a byproduct of the renewal cycle, the refresh schedules on the hardware and what the contracts stipulate. So I wouldn't say there's any true normalcy to it, but when you look at a year-over-year compare again depending on a refresh schedule, you can have more in year A versus year B. But I think on average, you should see that somewhere in the range of between 10% to 15% of Technology revenue.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah. Matt, this is Peter. You were higher – you were towards the higher end of the range this year, but I think you have to put in context what was happening with technology and hardware sales globally. You had a lot of work from home folks establishing. And not everybody was prepared to do all of that work from home. So that caused, if you will, a bit positive pressure on hardware sales for us as we helped our clients get established.

Matthew Galinko

Analyst, Sidoti & Company, LLC

Got it. That makes sense. And then just I guess one follow-up for me. And I guess it's follow-up on the pension question. I guess hypothetically if the relief bill does pass as kind of discussed on this call earlier, you've talked about M&A opening up as an option for you. So, I guess I'm just curious does that \$200 million start burning a hole in your pocket or do you think about your outlook for deploying that capital internally or inorganically? How do you think about that decisioning over the course of 2021? Is it something you can – can you see moving on M&A relatively quickly or is that not necessarily part of your – how you're deciding on that? Thanks.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah, Matt. This is Peter. I guess I'll take it to start and then have Mike follow-up and elaborate. The quick answer is it is not burning a hole in our pocket. It is not even in our pocket right now because we have allocated that to the pension takedown unless we don't need it for that because of the legislation. That said, as you look at our cash balance for the year, even without that \$200 million, we're in a significantly better cash balance than we were before and that money is not burning a hole in our pocket.

I know you are familiar, Matt, as is most of the people on this call. This is a hot market right now for mergers and acquisitions. The price of acquisitions is high and you have to really, really believe in your acquisition models in order to justify some of the pricing. That said, we have an active M&A team, but the goal of the team is modest. We're not looking for scale acquisitions. We're looking for some very specific capability acquisitions in our DWS business unit and in our Cloud business unit. So we think we'll be able to do that, but we don't – as I said, we're not in any particular rush to and the size of those acquisitions are expected to be modest. So I think that will be in good shape with or without the \$200 million. Mike?

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Look, I think you said it perfectly, Peter. I mean we're in a market here looking to acquire and enhance capabilities. And frankly that's happening with or without legislative relief. We have \$900 million-ish on our balance sheet in cash and we have capacity to borrow if we needed to, but the reality here is what we're looking for is the right deal and there's plenty of them out there. And as Peter noted, the market's fairly hot, but that doesn't mean we won't be prudent and ensure that what we're getting not only helps us prospectively, but from our look back perspective being able to take those competencies and play them back into our base is something that is important to us. So I would say, Matt, in general we're looking hard at a whole bunch of different things and we're going to do the right thing by the company.

Matthew Galinko

Analyst, Sidoti & Company, LLC

All right. Thank you.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thanks, Matt.

Operator

Your next question is from Rod Bourgeois of DeepDive Equity Research. Please go ahead.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Hey, guys. Thanks for the thorough and clear presentation on all of these trends. Very helpful stuff. I have a question about Digital Workplace and then a follow-up on ClearPath Forward. In Digital Workplace, can you just talk about the latest state of how COVID is impacting demand? I'm especially interested in an update on the status of the Field Services portion of the business. It does seem that your ability to accelerate growth from 2021 into the next year is meaningfully contingent on how that business plays out. So it would be great to get an updated sort of view on that.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yeah. So, Rod, thanks very much for the question. What I would say on Field Services is, we had a marginal uptick in the fourth quarter in terms of demand. We expect a slight uptick in 2021 in terms of Field Services. But, none of our numbers anticipate a significant uptick in Field Services. That's not to say I think we're at full run rate, but I think we're not far from full run rate. So, I would say we're about 80% of our 2019 run rate on Field Services. We expect that to go up a little bit over the course of the year. But in general, as we look to the future, our revenue increase is really going to come from a move to end user experience and not from increasing the Field Services revenues significantly. It's really the added value when you hear us talk about our IntelliServe platform, you hear us talk about outcomes, you hear us talking about moving from SLAs to really very objective customer value driven means of compensation and all of that is because of the confidence we have in our end user experience. So, I think that's going to be the biggest uptick for our DWS business. But I think we expect a marginal uptick in revenue from Field Services.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

So – but I guess the follow-up on that, is Field Services prone to be stable from 2021 into 2022? Or is there a possibility that with your plan to enhance margins and to shift into end user experience, could Field Services actually erode some or intentionally shrink in some ways?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Well, it depends on whether you're talking absolute dollars or percentage of revenue. In terms of absolute dollars, no, we don't expect it to be declining in absolute dollars. In percentage of revenue terms, we do, because we expect the growth coming from areas other than Field Services.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Got it. Okay. Great. And then on ClearPath Forward, clearly cloud adoption is a megatrend and COVID is further adding to that trend. So I want to ask in ClearPath Forward how cloud related trends are impacting ClearPath Forward technology demand? What are the puts and takes that are happening for ClearPath Forward technology demand in light of all the cloud adoption that's happening in the world?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Well, that's a great question. I would say, to be frank, it's not as hurried as I thought it would be. So we put ClearPath Forward on Azure actually in August of this past year. That's a big effort. Our MCP platform is already on Azure. By the end of this year, we expect OS 22 platform – or, OS 2200 platform to be on Azure, which will really complete our ClearPath Forward on Azure process. We have a number of clients that are either using the Azure platform now or are looking at using the Azure platform. I think effectively what that has done it has given them the comfort that they know they have a public cloud environment they can switch to if they wish to. I think over time, more and more of them will.

We think that instead of people thinking about a five-year journey, they're thinking about maybe a one-to two-year journey. But it doesn't mean that they're pulling the ripcord right now and [ph] saying they (00:55:29) absolute have to be on the public cloud. So I think we actually have been quite happy with that. We're happy that we have the answer for them. We're happy that it works. We're happy that clients are moving to it. But if we're talking about a large government and a large financial institution that does not want to move to the cloud right now, there's no reason for them to do so. So we actually think we have the best of both worlds right now. And we're very, very happy with the progress about moving ClearPath Forward on to Azure.

Operator

Your next question is from William Smith with William Smith & Company. Please go ahead.

William Smith

Analyst, William Smith & Company

Hi Peter, congratulations on another good year and all the progress that you've made. My question relates to the SAIC sale about a year ago and could you comment at all about how that's going and is there – I know there was an expectation that there would be a tail there on some of that business, could you comment on that and how that's developed?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Yes, Bill, absolutely. First of all, I think that has developed well. After the sale, we really thought there would be two revenue streams – well, three revenue streams to us from SAIC, first on service levels for the transition and that went according to plan. Secondly, on ClearPath Forward renewals as you will recall, we retained all of the intellectual property related to ClearPath Forward. And so, SAIC is acting, if you will, as a distributor to the federal government for us. That has gone exactly according to plan.

And then the third element is with respect to Stealth. I would say that SAIC is one of our more active channel partners for Stealth. So, that too is going according to plan. I referenced in my response, some of the progress we have made on Stealth, and we really have two versions of that. One is what we call Stealth(identity) which is the biometric capabilities and the other is Stealth(core) which is the microsegmentation capabilities. We're really using both in terms of our current client activities and I would say that while the SAIC channel is important to us, a bigger channel right now is with respect to healthcare, to travel and transportation, all with respect to COVID and COVID testing. So, we announced a partnership with Inspire Health last year and we're quite active working with Inspire as well as opportunities in both travel and transportation and healthcare. We think Stealth is a very vibrant solution for some of the testing opportunities that are upon us.

William Smith

Analyst, William Smith & Company

Okay. Great. Thank you.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thanks, Bill.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Peter Altabef for any closing remarks.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thanks very much, Alyssa. I'd like to thank everyone for joining us. I'd like to thank, Mike, for both his presentation and commentary. One item that I referred to in my remarks which I would recommend to you again for those of you who were not able to join us on our Investor Day in January, we have a full set of the slides as well as of the transcripts and the audio from that. I hope that you will find that useful. We didn't spend a lot of time today talking about the new business unit structure that we have put in place as of January with our business units. Obviously, we will start reporting on them as of the end of the first quarter. But we really laid out the strategy, the rationale and the effect we think that business unit approach will have on the company in our Investor Day presentations and we would recommend them to you.

With that, I want to again thank you. Courtney Holben and our Investor Relations team, Mike and I and the rest of the leadership team stand ready to continue the dialogue with you whenever appropriate. So thank you, guys very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.